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PART I

Basis of Presentation

The following Management's Discussion and Analysis (“MD&A”) has been prepared by Management and focuses on key statistics from the condensed consolidated interim financial statements and pertains to known risks and uncertainties. This MD&A should be read in conjunction with material contained in Killam Apartment Real Estate Investment Trust's audited consolidated financial statements for the years ended December 31, 2015, and 2014, 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 2015 Annual Information Form, are available on SEDAR at www.sedar.com.

Effective January 1, 2016, Killam Properties Inc. completed a plan of arrangement (the "Arrangement") to convert to a real estate investment trust, known as Killam Apartment Real Estate Investment Trust ("Killam" or the "Trust"). Under the Arrangement, each outstanding common share of Killam Properties Inc. was exchanged for one unit of the Trust ("Trust Unit"), unless a qualifying shareholder elected to receive exchangeable Class B limited partnership units (“Exchangeable Units”) in Killam Apartment Limited Partnership, a partnership controlled by the Trust in exchange for its common shares. As the Arrangement was effective on January 1, 2016, information presented in this MD&A as at, and for periods prior to or ended December 31, 2015, references Killam Properties Inc. and information provided as at January 1, 2016, and later references Killam Apartment REIT. Therefore, as the context requires, references to Killam, the Trust, we, or us mean, collectively, Killam Properties Inc. and Killam Apartment REIT.

The discussions in this MD&A are based on information available as at November 1, 2016. This MD&A has been reviewed and approved by Management and the Board of Trustees.

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.

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

PART II

Financial and Operational Highlights

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

Operating Performance (1)	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change (2)	**2016**	2015	Change
FFO	**$17,021**	$14,779	15.2%	**$43,662**	$36,615	19.2%
FFO per unit/share (diluted)(3)	**$0.24**	$0.24	—%	**$0.65**	$0.59	10.2%
AFFO per unit/share (diluted)(4)	**$0.21**	$0.21	—%	**$0.58**	$0.51	13.7%
Weighted average number of units/shares outstanding (diluted) (000's)(3)	**75,045**	70,104	7.0%	**73,016**	62,161	17.5%
Distributions/dividends paid per unit/share	**$0.15**	$0.15	—%	**$0.45**	$0.45	—%
AFFO payout ratio (diluted) - rolling twelve months	**81%**	90%	(900) bps	—	—	—
Portfolio Performance						
Total portfolio property revenue	**$45,078**	$43,193	4.4%	**$131,133**	$124,181	5.6%
Total portfolio NOI (5)	**$28,350**	$27,178	4.3%	**$79,052**	$73,029	8.2%
Same property NOI	**$26,481**	$25,717	3.0%	**$73,534**	$70,225	4.7%
Same property NOI margin	**63.2%**	62.7%	50 bps	**60.2%**	58.5%	170 bps
Same property apartment weighted average rental increase (6)	**1.4%**	1.1%	30 bps	—	—	—
Same property apartment occupancy	**95.8%**	95.1%	70 bps	**95.8%**	95.1%	70 bps

As at	**September 30, 2016**	December 31, 2015	Change
Leverage Ratios			
Total debt to total assets	**53.2%**	56.5%	(330) bps
Weighted average mortgage interest rate	**3.08%**	3.27%	(19) bps
Weighted average years to debt maturity	**4.2**	4.2	—
Debt service coverage - rolling twelve months	**1.52x**	1.35x	17 bps
Interest coverage - rolling twelve months	**2.81x**	2.34x	47 bps

(1) Funds from operations ("FFO") and adjusted funds from operations ("AFFO") are not defined by IFRS, and do not have standard meanings and may not be comparable with other industries or companies (see "Non-IFRS Financial Measures").

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

(3) The calculation of weighted average units outstanding for diluted FFO includes the convertible debentures as they are dilutive for the three and nine months ended September 30, 2016, as well as the three months ended September 30, 2015. The convertible debentures are excluded for the nine months ended September 30, 2015, as they are anti-dilutive.

(4) The calculation of weighted average units outstanding for diluted AFFO includes the convertible debentures for the three months ended September 30, 2016, as they are dilutive. The calculation for the nine-months ended September 30, 2016 as well as the three-and-nine month periods ended September 30, 2015, exclude the convertible debentures as they are anti-dilutive.

(5) Net Operating Income ("NOI")

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

Summary of Q3-2016 Results and Operations

Strengthened Balance Sheet

Following the $98 million equity raise completed in June, Killam redeemed $57.5 million of convertible debentures on July 4, 2016. This initiative contributed to a 330 basis point improvement in Killam's leverage ratio, ending the third quarter with 53.2% debt as a percentage of total assets compared to 56.5% at December 31, 2015. Killam also used funds from the equity raise to increase its portfolio of unencumbered assets, facilitating a significant increase to its acquisition credit facility, increasing it to $30 million, up from $2 million.

Stable FFO Despite 7% Increase in Weighted Average Number of Units Outstanding

FFO increased 15% in the quarter, to $17.0 million, from $14.8 million in Q3-2015. The increase was attributable to 3.0% growth in same property NOI, contributions from developments and acquisitions, and lower interest expense. These increases were partially offset by higher administration expense; accelerated vesting of restricted trust units ("RTUs") for certain participants, as a result of the RTU plan's retirement clause, lead to an additional $0.7 million in non-cash unit-based compensation expense in the quarter. Despite growth in FFO, FFO per unit was flat quarter-over-quarter at $0.24 due to the 14% increase in the weighted average number of units outstanding following the June 2016 equity raise.

Higher Rents and Improved Occupancy Results in Same Property Revenue Growth

Killam achieved consolidated same property revenue growth of 2.2% in Q3. Increased rents and higher occupancy levels both contributed to improved revenue in the quarter. The Halifax market outperformed for the fourth quarter in a row, achieving 3.8% same property revenue growth, the highest revenue growth of Killam's core markets. Halifax, representing 36% of Killam's NOI, is a strong rental market, benefiting from economic growth, urbanization and strong demand for rental apartments from an older demographic transitioning from homeownership to apartment rental. Killam's Ontario portfolio also achieved above average revenue growth in the quarter, up 3.0%, attributable to both increased rental rates and occupancy improvements.

Water and Natural Gas Savings Moderated Expense Growth

Lower water costs, achieved with the installation of low-flow water fixtures over the last year, and lower natural gas rates contributed to a 2.4% decrease in utility and energy expenses in the quarter. These savings, combined with lower quarter-over-quarter garbage collection rates, helped to offset the impact of higher operating costs, most notably insurance costs. Total same property operating expenses were up only 0.9% in the quarter.

Lower Interest Rates Contributed to Earnings Growth

Killam benefited from lower interest rates on mortgages refinanced during the second half of 2015 and during 2016, contributing to a 6.0% reduction in same property interest expense in the quarter. During Q3-2016, Killam successfully refinanced $23 million of maturing apartment mortgages with $37 million of new debt at a weighted average interest rate of 1.76%, 226 basis points ("bps") lower than the weighted average interest rate prior to refinancing. Killam's weighted average mortgage interest rate decreased 19 bps to 3.08% as at September 30, 2016, from 3.27% as at December 31, 2015.

Growth from Acquisitions and Developments

The $57 million in acquisitions completed during Q2-2016 contributed positively to FFO during Q3, as did the quarter-over-quarter NOI growth achieved from Killam's Saginaw development in Cambridge, which was completed in Q2-2015. Killam's newest development, Southport Apartments, completed at the end of August 2016, started collecting rents in September. Although it was opened only for the month of September, it achieved 68% occupancy and contributed positively to FFO. Both measures exceeded Management's expectation for its first month of operations.

Business Overview

Killam Apartment REIT, based in Halifax, NS, is one of Canada's largest residential landlords, owning, operating, managing and developing multi-family residential and manufactured home community ("MHC") properties. Killam's current portfolio includes $1.9 billion in real estate assets and its strategy to maximize its value and long-term profitability includes concentrating on three key areas of growth:

1) increase earnings from the existing portfolio,

2) expand the portfolio and geographic diversification through accretive acquisitions targeting newer properties, and

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

Killam was founded in 2000, based on the recognition of an opportunity to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam entered the Ontario apartment market in 2010 and acquired an ownership interest in its first apartment property in Calgary in 2014. Since 2010, Killam has complemented its acquisition program with the construction of apartment buildings, and has completed eight projects to-date and currently has two additional properties under construction.

The apartment business is Killam's largest business segment, accounting for 89% of Killam's NOI for the nine months ended September 30, 2016. As at September 30, 2016, Killam's apartment portfolio consisted of 13,882 units, which include 977 units that Killam co-owns 50% through a joint arrangement. Its 179 apartment properties are located predominantly in Atlantic Canada's six largest urban centres (namely Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown), Ontario ("ON"- including Ottawa, London, Toronto and Cambridge) and Calgary, Alberta ("AB"). Killam is Atlantic Canada's largest residential landlord, with a 13.6% market share of the multi-family rental units in its core Atlantic markets. Killam plans to expand its presence in Ontario and Western Canada with additional acquisitions and developments.

Killam also owns 35 MHC sites, also known as land-lease communities or trailer parks, located in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting each community and leases the lots to tenants who own their own homes and pay Killam monthly site rent. The MHC portfolio accounted for 9% of Killam's NOI for the first nine months of 2016. Killam also has a portfolio of commercial properties, which accounted for 2% of Killam's NOI for the nine months ended September 30, 2016.

Key Performance Indicators ("KPIs")

Management measures Killam's performance based on the following KPIs:

1) FFO per Unit – A standard measure of earnings for real estate entities. Management is focused on growing FFO per unit on an annual basis.

2) Rental Increases – Management expects to achieve increases in average annual rental rates and tracks the average rate increases achieved.

3) Occupancy – Management is focused on maximizing occupancy while also managing the impact of higher rents. This measure is a percentage based on vacancy cost divided by gross potential residential rent (in dollars) of total stabilized properties for the quarter.

4) Same Property NOI Growth – This measure considers Killam's ability to increase the same property NOI, removing the impact of acquisitions, dispositions, developments and other non-same property operating adjustments.

5) Weighted Average Interest Rate of Mortgage Debt and Total Debt – Killam monitors the weighted average cost of its mortgage debt and total debt.

6) Debt to Total Assets – Killam's primary measure of its leverage is debt as a percentage of total assets. Killam's Declaration of Trust ("DOT") requires total debt as a percentage of total assets to be less than 70%. Debt to total assets is calculated by dividing total interest bearing debt by total assets, adjusted for any non-controlling interest.

7) Weighted Average Years to Maturity – Management monitors the average number of years to maturity on its debt.

8) 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.

9) 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.

Non-IFRS Financial Measures

There are measures included in this MD&A that do not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. Killam includes these measures as a means of measuring financial performance.

- FFO are calculated by Killam as net income plus depreciation on owner-occupied property, fair value losses, interest expense related to exchangeable units, loss on disposition, deferred tax expense, unrealized loss on derivative liability and REIT conversion costs, less fair value gains, deferred tax recovery, gain on disposition, unrealized gain on derivative liability and non-controlling interest. FFO, as per the definition of Killam, are calculated in accordance with the REALpac definition, except for the add-back of REIT conversion costs as noted above; REALpac does not address this specific type of adjustment.
- AFFO are calculated by Killam as FFO less the industry standard of $450 per apartment unit for "maintenance" versus "NOI enhancing" related capital costs and $100 per MHC site, although the MHC industry does not have a standard amount for "maintenance" related capital costs.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties Killam has owned for equivalent periods in 2016 and 2015 (97% of the portfolio based on the September 30, 2016, unit count).
- Interest coverage is calculated by dividing earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense adjusted for interest expense related to exchangeable units.
- Debt service coverage is calculated by dividing the earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense adjusted for interest expense related to exchangeable units and principal mortgage repayments.

Outlook

Increased Earnings from Killam's Same Property Portfolio

Management expects to generate same property NOI growth and improved operating margins by increasing rental revenue and expense management. Top-line growth is expected to be driven primarily from increased rental rates. A growing number of baby boomers and seniors looking to transition from home ownership to apartment-style living are expected to support strong demand for apartment rentals for the foreseeable future. Population growth, fueled in part from increased international immigration levels in Killam's core markets, most notably Halifax, is also expected to support a strong rental market.

Investments in energy initiatives and operational efficiencies are expected to contribute to improved operating margins and mitigate operating expense pressures. Having identified over $25 million in efficiency related opportunities with an average payback of four years, Management is doubling its investment in energy and water saving initiatives from approximately $1.5 million in 2016 to over $3 million next year. These investments, including low-flow water solutions, heating system upgrades, lighting solutions and temperature control solutions, are expected to augment Killam's annual same property NOI growth.

Reduced natural gas rates in Nova Scotia in 2017 are also forecasted to contribute to NOI growth next year. Having absorbed significant increases in natural gas prices in Atlantic Canada during 2013 and 2014, Killam has experienced more stable pricing in 2015 and 2016, especially in New Brunswick. Natural gas costs remained relatively high in Nova Scotia year-to-date in 2016 due to fixed price contracts put in place by the Trust's natural gas distributor, Heritage Gas, during 2015. Based on indications from Heritage Gas, Management expects natural gas commodity charges in Nova Scotia to be lower in 2017. In addition, Heritage Gas reduced the distribution rate on one of its rate classes effective April 2016 to improve its pricing versus alternative energy sources. Killam is benefiting from this price change, which impacts approximately 30% of its apartment units heated with natural gas in Nova Scotia.

Overall the outlook for same property NOI growth for 2016 is 3%-4% and for 2017 it is 1%-3%.

Acquisitions to add Increased Geographic Diversification

Killam's strong operating platform can support a larger and more geographically diverse portfolio. Management is actively looking for accretive acquisition opportunities in Ontario, Atlantic Canada and Alberta, with a focus on its core markets in Ontario. Management expects its acquisition program will contribute to a higher percentage of Killam's NOI being generated outside Atlantic Canada, up from 21% during the first nine months of 2016. Killam has already committed to acquire a 50% interest in two new apartment buildings in Ottawa; the two remaining buildings of the five-building complex Kanata Lakes Apartments, of which Killam is already a 50% owner. This $50 million acquisition for Killam is expected to close in early 2017. Killam's recently expanded credit facility increased its acquisition capacity to approximately $100 million, enabling Management to execute quickly on accretive opportunities.

Developments to Contribute to NAV Growth

Killam is an experienced developer, having completed over $130 million in apartment developments. Developments will continued to be an important component of Killam's growth strategy. Targeting a yield on development of 5.5% to 6.0% and an anticipated cap-rate value on completion of 4.5% to 5.0%, Management expects its developments to be accretive and create unitholder value. Based on the two developments underway and additional projects expected to start in 2017, Killam forecasts adding between $30 and $70 million of new developments to its portfolio during each of the next three years. These new properties are expected to reinforce Killam's portfolio as 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 the MD&A.

Strengthening Balance Sheet

The redemption of $57.5 million in convertible debentures on July 4, 2016, resulted in a reduction in Killam's total leverage, down 150 bps to 53.2% at September 30, 2016. Management has identified opportunities to further strengthen Killam's balance sheet and is targeting a leverage level of 50% during the next few years. In addition, Management plans to expand its portfolio of unencumbered assets and increase its acquisition line, providing additional capital flexibility.

Interest Savings

Killam has approximately $180 million of apartment mortgages maturing through to the end of 2018 at a weighted average interest rate of 3.60%, approximately 180 bps and 130 bps higher than current 5 and 10-year CMHC insured rates. Based on an expectation of yields remaining low in the near-term, Management expects to refinance its maturing mortgages at lower interest rates, creating interest expense savings. Management also expects to up-finance approximately $60 million from maturing mortgages through to the end of 2018. Assuming a weighted average interest rate of 2.1% on refinanced apartment mortgages over the next two years, using a mix of 5 and 10-year debt, Killam could generate annualized interest savings of up to $1.5 million.

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

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolio by market as at September 30, 2016:

Apartment Portfolio				
	Units [1]	Number of Properties	NOI ($) [2]	NOI [2] (% of Total)
Nova Scotia				
Halifax	5,160	59	$28,302	35.8%
Sydney	139	2	$941	1.2%
	5,299	61	$29,243	37.0%
New Brunswick				
Moncton	1,629	31	$6,218	7.9%
Fredericton	1,422	21	$6,406	8.1%
Saint John	1,202	14	$3,807	4.8%
Miramichi	96	1	$418	0.5%
	4,349	67	$16,849	21.3%
Ontario [3]				
Ottawa	953	10	$3,490	4.4%
London	264	2	$2,720	3.4%
Toronto	378	2	$2,435	3.1%
Cambridge	347	3	$3,099	3.9%
	1,942	17	$11,744	14.8%
Newfoundland & Labrador				
St. John's	915	12	$5,345	6.8%
Grand Falls	148	2	$602	0.8%
	1,063	14	$5,947	7.6%
Prince Edward Island				
Charlottetown	906	17	$4,458	5.6%
Summerside	86	2	$378	0.5%
	992	19	$4,836	6.1%
Alberta [3]				
Calgary	307	1	$1,783	2.3%
Total Apartments	**13,952**	**179**	**$70,402**	**89.1%**

Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) [2]	NOI [2] (% of Total)
Nova Scotia	2,626	16	$3,269	4.1%
Ontario	2,145	16	$3,398	4.3%
New Brunswick	224	1	$197	0.2%
Newfoundland & Labrador	170	2	$243	0.3%
	5,165	**35**	**$7,107**	**8.9%**

Commercial Portfolio				
	Square Footage	Number of Properties	NOI ($)	NOI (% of Total)
Halifax, NS	248,000	4	$1,543	2.0%
Total Portfolio			**$79,052**	**100%**

(1) Unit count includes properties held through Killam's joint arrangements.

(2) For the nine months ended September 30, 2016.

(3) Killam owns and manages four buildings located in Ontario and one building in Alberta through a joint arrangement, with Killam having a 50% ownership interest in all five properties. Killam's ownership interest represents 489 of the 977 units in these properties.

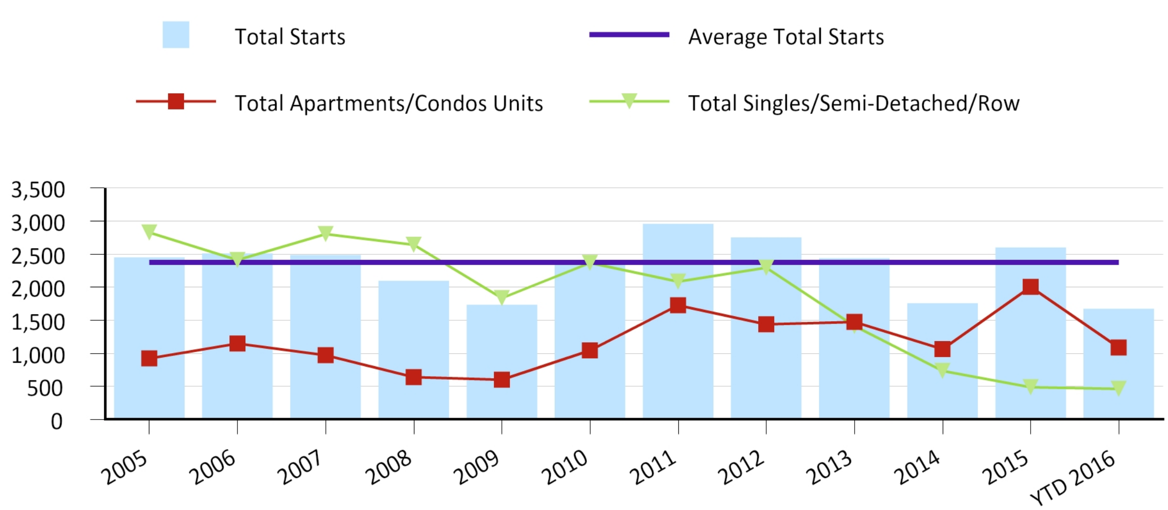
Core Market Update

Halifax
36% of Killam's total NOI is earned from its Halifax apartment portfolio. The city's rental unit base is 45,714 units, accounting for 47.4% of the total rental universe in Atlantic Canada as measured by Canadian Mortgage and Housing Corporation ("CMHC"). Halifax is the largest city in the region and home to 17% of Atlantic Canadians. It is the region's economic hub, producing 56% of Nova Scotia's total GDP and home to 44% of the province's population. The city attracts a diverse population base, both from rural areas of Nova Scotia, other regions in Atlantic Canada, and internationally. With six degree-granting universities and three large community college campuses, Halifax is home to approximately 35,000 students per year, including 4,000 international students. Halifax's employment base is well diversified, with jobs focused around public service, health care, education and, retail and wholesale trade among the largest sectors. Halifax is home to the largest Canadian Forces Base by number of personnel in Canada and the Department of National Defence is the largest employer in the city.

Halifax has experienced improved occupancy and rental growth, attributable to economic and population growth in the city, and increasing demand from the baby boomer generation shifting away from home ownership into apartment living. Intraprovincial migration and international migration have also contributed to increased demand for apartments in the city. Increased numbers of rental units are being built to absorb this demand. The majority of the new rental supply introduced into the market in recent years caters to this demographic, with spacious units of 1,200 square feet ("SF") or more, and monthly rents of $1,300 and higher.

The following graph summarizes the total number of starts in Halifax for all housing types from 2006 to 2016, as reported by CMHC. During the last ten years, the annual total housing starts averaged 2,400 units per year. As the graph highlights, a decrease in single family starts is being offset by an increase in multi-family starts, resulting in relatively stable levels of total housing starts and apartment occupancy. This trend continues in 2016 with 1,087 apartment and condo unit starts during the first nine months of 2016 compared to 585 single family, semi-detached and row housing starts during the same period, as per CMHC's Starts and Completions Survey. This compares with 1,859 apartment starts and 436 single family, semi-detached and row housing starts during the first nine months of 2015.

Halifax Total Housing Starts



Source: CMHC

Despite an increased rental inventory, units are being absorbed by strong demand in the city, as noted above. CMHC's Fall Rental Market Outlook reported Halifax's vacancy to be 3.4% in October 2015, down from 3.8% in October 2014. In its Spring 2016 Housing Market Outlook for Halifax, CMHC forecasted vacancy to decline to 3.2% in 2016 (October 2016) before increasing to 3.6% in 2017.

Management expects population growth in Halifax to increase due to local large-scale projects that should drive employment opportunities. Irving Shipyard's $25 billion shipbuilding contract should have positive long-term implications for Halifax and Atlantic Canada. The contract is expected to generate over 1,500 direct jobs, and over 3,400 direct and indirect jobs in Nova Scotia. Investment in offshore energy in Nova Scotia also has the potential to contribute to future growth for both Halifax and Nova Scotia with $2 billion in exploration commitments awarded in recent years. Large construction projects in the city, and the province, will also contribute to Halifax's economic growth.

With a diversified asset base of more then 5,100 centrally located apartment units in Halifax and 1,100 MHC sites in and around the city, Killam should benefit from increased demand for housing that will come from population and economic growth, and a growing base of aging homeowners transitioning to apartment rental.

New Brunswick
21% of Killam's NOI is currently generated in New Brunswick, split between the province's three major urban centres; Fredericton, Moncton and Saint John. Fredericton is the provincial capital and home to the province's largest university. Moncton is the largest city and is a transportation and distribution hub for Atlantic Canada. Moncton has experienced strong population growth in recent years driven by urbanization from French communities in Northern New Brunswick. The Saint John market, representing 5% of Killam's NOI, is focused on industry and energy. After strong energy investments in the city in the mid-2000s, the city had seen a reduction in economic projects over recent years. However, new investments have started in the forestry sector, and the Energy East Pipeline proposal to bring oil from Western Canada to refineries in Quebec and New Brunswick has potential to generate future economic growth for the city and the province.

Following an increase in vacancy in New Brunswick in recent years, due partly to higher levels of new construction, CMHC reports vacancy rates are coming down with fewer new rental projects being introduced into the market. CMHC reported that during 2014 and 2015, there were 573 and 355 new rental apartment unit starts in the province, a marked reduction from the 876 and 812 new rental unit starts during 2012 and 2013. New rental apartment starts remain low in 2016, with CMHC reporting only 75 new apartment starts in the province during the first nine months of the year.

CMHC reported improved occupancy in all three cities in New Brunswick in its Fall 2015 Rental Market Report, and is expecting occupancy levels to continue to improve in all three markets, driven primarily by intraprovincial and international migration, and increasing demand from retiring baby boomers. Moncton is expected to see the most improvement in occupancy with CMHC forecasting 6.0% vacancy in 2017, a 140 bps improvement from 2015.

Newfoundland and Labrador
7% of Killam's apartment NOI is generated in St. John's. After undergoing a transformation over the last ten years following significant offshore investments, the city is now adjusting to the impact of lower oil prices. After maintaining very high occupancy and record high rental rate growth in the St. John's portfolio for most of the last eight years, Killam is experiencing softer revenue growth in 2016. CMHC is anticipating an increase in vacancy in St. John's due to the economic pressures and is forecasting a 30 basis increase in vacancy to 5.0% in 2016, moving to 5.5% in 2017.

Prince Edward Island
Killam has a 18% market share in Charlottetown, the capital and economic center of Prince Edward Island. The Charlottetown market represents 6% of Killam's total NOI. The Prince Edward Island economy continues to realize GDP growth following increases in merchandise exports since 2013. Demographics and international immigration are driving strong demand for rental units. CMHC forecasts vacancy rates improving 60 bps in October 2016, down to 3.6% compared to 4.2% in October 2015. CMHC's 2017 vacancy forecast is 3.8%.

Ontario
Killam's Ontario apartment portfolio represents 15% of NOI. The Ontario rental market is stable with CMHC reporting a 3.0% increase in average rents in 2015 for the total Ontario rental market, and vacancy of 2.2% in its *Fall Rental Market Report*. CMHC forecasts stable vacancy in Ontario of 2.2% in 2016 and improved levels to 2.1% in 2017.

Alberta
2% of Killam's NOI is earned in Alberta. Killam's investment in Western Canada is limited to a 50% interest in both an apartment building and land for development in Calgary. The Alberta rental market has softened as migration has slowed due to rising unemployment following lower oil prices. CMHC reported a vacancy rate of 5.3% in October 2015 in Calgary, up from 1.4% a year earlier, and is forecasting vacancy of 7.0% in October 2016 and 5.5% in 2017. Office vacancies have also spiked, with vacancy exceeding 20% following the fallout from low oil prices. Killam experienced increased vacancy in its downtown Calgary asset throughout 2015 however, has seen occupancy levels rebound in recent months following a reduction in rental rates.

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

PART III

Q3-2016 Financial Overview
Consolidated Results

For the three months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$45,078**	$43,193	4.4%	**$41,919**	$41,011	2.2%	**$3,159**	$2,182	44.8%
Property operating expenses									
Operating expenses	**7,752**	7,263	6.7%	**7,156**	6,966	2.7%	**596**	297	100.7%
Utility and fuel expenses	**3,781**	3,807	(0.7)%	**3,576**	3,663	(2.4)%	**205**	144	42.4%
Property taxes	**5,195**	4,945	5.1%	**4,706**	4,665	0.9%	**489**	280	74.6%
Total operating expenses	**$16,728**	$16,015	4.5%	**$15,438**	$15,294	0.9%	**$1,290**	$721	78.9%
NOI	**$28,350**	$27,178	4.3%	**$26,481**	$25,717	3.0%	**$1,869**	$1,461	27.9%
Operating margin %	**62.9%**	62.9%	—	**63.2%**	62.7%	50 bps	**59.2%**	67.0%	(780) bps

For the nine months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$131,133**	$124,181	5.6%	**$122,238**	$120,043	1.8%	**$8,895**	$4,138	115.0%
Property operating expenses									
Operating expenses	**21,664**	20,676	4.8%	**20,157**	20,201	(0.2)%	**1,507**	475	217.3%
Utility and fuel expenses	**15,122**	15,925	(5.0)%	**14,464**	15,602	(7.3)%	**658**	323	103.7%
Property taxes	**15,295**	14,551	5.1%	**14,083**	14,015	0.5%	**1,212**	536	126.1%
Total operating expenses	**$52,081**	$51,152	1.8%	**$48,704**	$49,818	(2.2)%	**$3,377**	$1,334	153.1%
NOI	**$79,052**	$73,029	8.2%	**$73,534**	$70,225	4.7%	**$5,518**	$2,804	96.8%
Operating margin %	**60.3%**	58.8%	150 bps	**60.2%**	58.5%	170 bps	**62.0%**	67.8%	(580) bps

Total property revenue for the three and nine months ended September 30, 2016, was $45.1 million and $131.1 million, a 4.4% and 5.6% increase in revenue over the same periods in 2015. The growth was generated through acquisitions, completed developments and a 2.2% increase in same property revenue.

Killam's total property expenses increased by 4.5% and 1.8% for the three and nine months ended September 30, 2016, compared to 2015, as a result of expenses associated with newly acquired properties and completed developments. Killam's consolidated operating margin year-to-date increased 150 bps over the same period in 2015, as a result of lower utility and fuel expenses and higher margins on recently completed developments.

Same property NOI reflects 206 stabilized properties that Killam has owned for equivalent periods in 2016 and 2015. The same property analysis includes 96.7% of Killam's portfolio. The same property portfolio realized net revenue growth of 2.2% and 1.8% for the three and nine months ended September 30, 2016. Operational efficiencies combined with the milder winter in 2016 generated a modest 0.9% increase and 2.2% savings in total operating expenses compared to the same three and nine month periods in 2015. Combining net revenue growth and savings in property expenses, same property NOI grew by 3.0% and 4.7% for the three and nine month periods in 2016. These variances are discussed in more detail in the Apartment and MHC sections of the MD&A.

Non-same property NOI consists of properties acquired in 2015 and 2016, development projects completed in 2015 and 2016, and other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items.

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

Apartment Results

For the three months ended September 30,

	Total			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$39,112**	$37,459	4.4%	**$37,147**	$36,382	2.1%	**$1,965**	$1,077	82.5%
Property operating expenses									
Operating expenses	**6,324**	5,986	5.6%	**6,099**	5,931	2.8%	**225**	55	309.1%
Utility and fuel expenses	**3,191**	3,245	(1.7)%	**3,093**	3,198	(3.3)%	**98**	47	108.5%
Property taxes	**4,822**	4,634	4.1%	**4,559**	4,533	0.6%	**263**	101	160.4%
Total operating expenses	**$14,337**	$13,865	3.4%	**$13,751**	$13,662	0.7%	**$586**	$203	188.7%
NOI	**$24,775**	$23,594	5.0%	**$23,396**	$22,720	3.0%	**$1,379**	$874	57.8%
Operating margin %	**63.3%**	63.0%	30 bps	**63.0%**	62.4%	60 bps	**70.2%**	81.2%	(1,100) bps

For the nine months ended September 30,

	Total			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$116,133**	$110,819	4.8%	**$110,860**	$108,951	1.8%	**$5,273**	$1,868	182.3%
Property operating expenses									
Operating expenses	**17,970**	17,511	2.6%	**17,468**	17,490	(0.1)%	**502**	21	2,290.5%
Utility and fuel expenses	**13,554**	14,551	(6.9)%	**13,312**	14,446	(7.8)%	**242**	105	130.5%
Property taxes	**14,207**	13,724	3.5%	**13,636**	13,578	0.4%	**571**	146	291.1%
Total operating expenses	**$45,731**	$45,786	(0.1)%	**$44,416**	$45,514	(2.4)%	**$1,315**	$272	383.5%
NOI	**$70,402**	$65,033	8.3%	**$66,444**	$63,437	4.7%	**$3,958**	$1,596	148.0%
Operating margin %	**60.6%**	58.7%	190 bps	**59.9%**	58.2%	170 bps	**75.1%**	85.4%	(1,030) bps

Apartment Revenue

Total apartment revenue for the three and nine months ended September 30, 2016, was $39.1 million and $116.1 million, a 4.4% and 4.8% increase in revenue over the same periods in 2015. This growth was attributable to acquisitions, completed developments, growth in rental rates and increased occupancy.

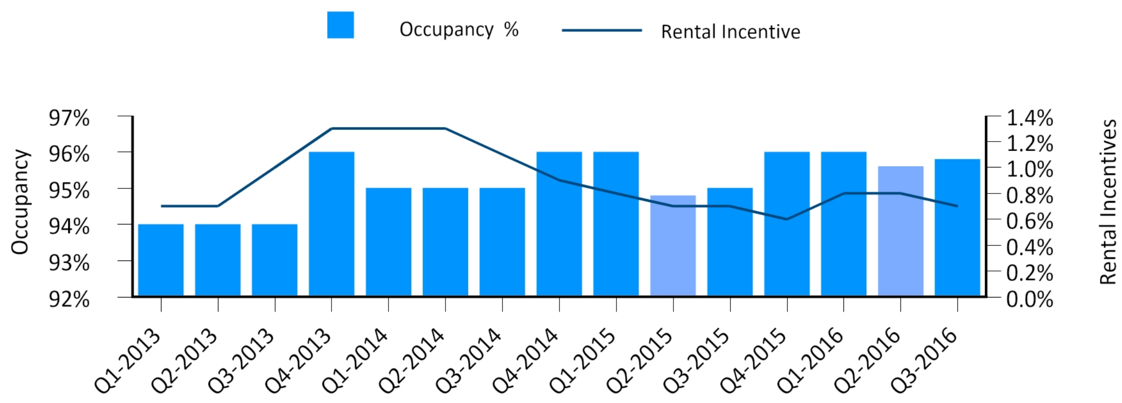
Same property apartment revenue increased 2.1% and 1.8% for the three and nine months ended September 30, 2016, due to a 1.4% increase in rental rates, and a 70 bps improvement in same property occupancy for the quarter and year-to-date.

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

		Total Occupancy			Same Property Occupancy		
Three months ended September 30,	# of Units	**2016**	2015	Change (bps)	**2016**	2015	Change (bps)
Halifax, NS	5,160	**96.0%**	95.1%	90	**96.2%**	95.1%	110
Moncton, NB	1,629	**95.5%**	95.0%	50	**95.8%**	95.2%	60
Fredericton, NB	1,422	**94.1%**	94.8%	(70)	**94.2%**	94.8%	(60)
Saint John, NB	1,202	**92.1%**	94.1%	(200)	**92.2%**	94.1%	(190)
St. John's, NL	915	**95.5%**	96.4%	(90)	**95.6%**	96.8%	(120)
Charlottetown, PE	906	**98.5%**	97.4%	110	**98.3%**	97.3%	100
Ontario	1,942	**97.0%**	92.8%	420	**96.9%**	96.3%	60
Alberta	307	**92.1%**	87.5%	460	**92.1%**	87.5%	460
Other Atlantic	469	**97.4%**	97.4%	—	**96.7%**	96.6%	—
Total Apartments (weighted average)	13,952	**95.8%**	94.8%	100	**95.8%**	95.1%	70

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

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



Killam's apartment occupancy, as a % of units occupied, was 96.9% as at September 30, 2016, a 20 bps increase from 96.7% as at September 30, 2015. Vacancy, calculated as a percentage of residential rent is typically 70-110 bps lower then when calculated by unit count.

Average Rent Analysis by Core Market

As at September 30,

		Average Rent			Same Property Average Rent		
	# of Units	**2016**	2015	% Change	**2016**	2015	% Change
Halifax, NS	5,160	**$985**	$960	2.6%	**$980**	$960	2.1%
Moncton, NB	1,629	**$840**	$829	1.3%	**$840**	$829	1.3%
Fredericton, NB	1,422	**$910**	$896	1.6%	**$912**	$896	1.8%
Saint John, NB	1,202	**$785**	$776	1.2%	**$764**	$754	1.3%
St. John's, NL	915	**$962**	$940	2.3%	**$913**	$891	2.5%
Charlottetown, PE	906	**$904**	$896	0.9%	**$904**	$896	0.9%
Ontario	1,942	**$1,377**	$1,295	6.3%	**$1,309**	$1,284	1.9%
Alberta	307	**$1,210**	$1,386	(12.7)%	**$1,210**	$1,386	(12.7)%
Other Atlantic	469	**$850**	$829	2.5%	**$850**	$829	2.5%
Total Apartments (weighted average)	13,952	**$989**	$964	2.6%	**$969**	$956	1.4%

As shown in the preceding table, the weighted average monthly rent for Killam's apartment portfolio was $989 as at September 30, 2016, up 2.6% from $964 as at September 30, 2015. This increase includes the impact of higher rental rates associated with recently completed developments and acquisitions. The 6.3% increase in average rental rates in Ontario is the result of the acquisition of Kanata III in June 2016. This property has the highest average rental rates of the Ontario portfolio. Killam's same property apartment portfolio realized a 1.4% increase in average rents quarter-over-quarter. Refer to page 15 for same property revenue, expense and NOI detail by region.

Apartment Expenses

Total apartment expenses for the three and nine months ended September 30, 2016, were $14.3 million and $45.7 million, resulting in a 3.4% increase for the quarter and flat expense growth year-to-date. The expense increase in the quarter is attributable to acquisitions and completed developments. Mitigating the increased costs are lower year-over-year fuel and contract service costs. Killam realized a 30 bps and 190 bps improvement in its apartment operating margin for the quarter and year-to-date as a result of a mild winter season, lower fuel pricing and consumption, operational efficiencies and the development and acquisition of newer and more efficient buildings.

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

Total same property expenses for the three and nine months ended September 30, 2016, were $13.8 million and $44.4 million, a modest 0.7% increase for the quarter and a 2.4% decrease year-to-date. Quarter-over-quarter savings in water, natural gas and garbage removal costs contributed to only a 0.7% increase in expenses. The 2.4% decrease in expenses year-to-date was due primarily to lower heating oil and natural gas consumption and pricing, the ability to minimize property operating costs, improved operating efficiencies and only a modest increase in overall property taxes.

Apartment Utility and Fuel Expenses - Same Property

	Three months ended September 30,			**Nine months ended September 30,**		
	2016	2015	% Change	**2016**	2015	% Change
Natural gas	**$362**	$413	(12.3%)	**$3,842**	$4,564	(15.8%)
Electricity	**1,463**	1,439	1.7%	**5,198**	5,270	(1.4%)
Water	**1,147**	1,223	(6.2%)	**3,510**	3,616	(2.9%)
Oil	**113**	113	0.0%	**735**	964	(23.8%)
Other	**8**	10	(20.0%)	**27**	32	(15.6%)
Total utility and fuel expenses	**$3,093**	$3,198	(3.3%)	**$13,312**	$14,446	(7.8%)

Utility and fuel expenses accounted for approximately 22% of Killam's total apartment same property operating expenses in Q3-2016 and 30% year-to-date. Total utility and fuel expenses were 3.3% and 7.8% lower compared to the same three and nine month periods in 2015 due to warmer weather, lower commodity costs and investments in efficiencies. Killam's apartment properties are heated with a combination of natural gas (56%), electricity (35%), oil (8%) and steam (1%). Electricity costs at the unit level are typically paid directly by tenants, reducing Killam's exposure to the majority of the 4,600 units heated with electricity. Killam is primarily exposed to the electricity costs associated with common areas. Fuel costs associated with natural gas or oil-fired heating plants are paid by Killam.

Killam's same property natural gas costs decreased by 12.3% compared to Q3-2015 and 15.8% year-to-date. The decrease in Q3-2016 was attributable to lower quarter-over-quarter distribution and commodity rates in Nova Scotia, and lower natural gas charges in Ontario and New Brunswick.

Heating oil costs were comparable quarter-over-quarter and decreased by 23.8% year-to-date in 2016 compared to 2015 due to the decline in world oil prices. Electricity costs were up slightly by 1.7% for the quarter but down 1.4% for the first nine months of the year due to milder weather, energy efficiencies and a reduction in the inclusion of unit electricity as a rental incentive. Killam prefers not to include electricity in rental rates and rents are typically increased to offset this additional expense; however, in competitive markets some landlords include electricity in the rental rates. Killam will do the same if the market conditions dictate.

Despite higher rates, water expense for same properties decreased by 6.2% and 2.9% for the three and nine months ended September 30, 2016. Killam has installed 2,617 low-flow toilets over the nine months ended September 30, 2016, and is realizing marked decreases in water consumption and water expenses from the program. The payback period for the $0.9 million invested in the program over the nine months ended September 30, 2016, is estimated to be 2.75 years.

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

Apartment Same Property NOI by Region

Three months ended September 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Halifax	**$14,835**	$14,294	3.8%	**($4,843)**	($4,771)	1.5%	**$9,992**	$9,523	4.9%
Ontario	**5,546**	5,382	3.0%	**(2,131)**	(2,127)	0.2%	**3,415**	3,255	4.9%
Moncton	**4,279**	4,226	1.3%	**(1,979)**	(1,950)	1.5%	**2,300**	2,276	1.1%
Fredericton	**3,711**	3,659	1.4%	**(1,488)**	(1,543)	(3.6)%	**2,223**	2,116	5.1%
St. John's	**2,480**	2,474	0.2%	**(747)**	(713)	4.8%	**1,733**	1,761	(1.6)%
Charlottetown	**2,638**	2,579	2.3%	**(929)**	(902)	3.0%	**1,709**	1,677	1.9%
Saint John	**2,449**	2,504	(2.2)%	**(1,208)**	(1,221)	(1.1)%	**1,241**	1,283	(3.3)%
Alberta	**685**	763	(10.2)%	**(223)**	(245)	(9.0)%	**462**	518	(10.8)%
Other Atlantic locations	**524**	501	4.6%	**(203)**	(190)	6.8%	**321**	311	3.2%
	$37,147	$36,382	2.1%	**($13,751)**	($13,662)	0.7%	**$23,396**	$22,720	3.0%

Nine months ended September 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Halifax	**$44,128**	$42,598	3.6%	**($16,454)**	($16,753)	(1.8)%	**$27,674**	$25,845	7.1%
Ontario	**16,586**	16,289	1.8%	**(6,425)**	(6,372)	0.8%	**10,161**	9,917	2.5%
Moncton	**12,730**	12,704	0.2%	**(6,094)**	(6,282)	(3.0)%	**6,636**	6,422	3.3%
Fredericton	**11,100**	10,927	1.6%	**(4,723)**	(5,042)	(6.3)%	**6,377**	5,885	8.4%
St. John's	**7,414**	7,366	0.7%	**(2,395)**	(2,298)	4.2%	**5,019**	5,068	(1.0)%
Charlottetown	**7,881**	7,690	2.5%	**(3,048)**	(3,197)	(4.7)%	**4,833**	4,493	7.6%
Saint John	**7,433**	7,471	(0.5)%	**(3,987)**	(4,253)	(6.3)%	**3,446**	3,218	7.1%
Alberta	**2,011**	2,406	(16.4)%	**(657)**	(680)	(3.4)%	**1,354**	1,726	(21.6)%
Other Atlantic locations	**1,577**	1,500	5.1%	**(633)**	(637)	(0.6)%	**944**	863	9.4%
	$110,860	$108,951	1.8%	**($44,416)**	($45,514)	(2.4)%	**$66,444**	$63,437	4.7%

As shown above, Killam generated positive NOI growth in the majority of its core markets in Q3-2016, with the exception of St. John's and Alberta. Overall, Killam generated apartment same property portfolio NOI growth of 3.0% for Q3-2016 as well as year-to-date NOI growth of 4.7%. Rental rate increases, lower natural gas and heating oil costs and operational efficiencies contributed to the NOI growth for both the three and nine months ended September 30, 2016.

Halifax

Halifax is Killam’s largest rental market, representing 42% of apartment same property NOI for the nine months ended September 30, 2016. The Halifax same property apartment portfolio achieved 3.8% and 3.6% revenue growth for the three and nine months ended September 30, 2016. Overall, Halifax achieved 4.9% and 7.1% NOI growth for the three and nine months ended September 30, 2016.

The 3.8% revenue increase from the Halifax portfolio in Q3 was the highest revenue growth from any of Killam's core markets. This is the fourth quarter in a row that Killam's Halifax portfolio has been the leader in revenue growth. Occupancy was up 110 bps and average rent for the Halifax same property portfolio was up 2.1%. An increase in commercial occupancy, increased parking revenues and a reduction in bad debts quarter-over-quarter also contributed to same property revenue growth. Total operating expenses increased by 1.5% in the quarter. Savings in water consumption, natural gas pricing and lower garbage removal expense from recent contract negotiations were offset by increases in property taxes, insurance premiums and timing of R&M spending.

New Brunswick
Killam's three core markets in New Brunswick generated 25% of Killam's apartment same property NOI for the nine months ended September 30, 2016. In aggregate, the NB portfolio achieved 1.6% NOI growth in the quarter and 6.0% growth year-to-date. The improvements were attributable to increased revenues, up 0.5% for both the three and nine months ended September 30, 2016, and lower total operating expenses, down 0.8% and 5.0% for the three and nine months ended September 30, 2016. The year-to-date results continue to benefit from substantial savings in heating costs in Q1-2016.

Fredericton achieved both the strongest revenue and NOI growth in NB in Q3. Revenue was up 1.4% for the quarter and NOI was up 5.1%. Top-line growth was primarily attributable to increased rents, up an average of 1.8% in September 2016 compared to September 2015, offset marginally by a 60 bps increase in vacancy in the quarter. Fredericton also benefited from a 3.6% reduction in total operating costs, due primarily to lower property taxes following successful tax assessment appeals received in Q1.

Moncton ranked second in NB in revenue and NOI growth in Q3, up 1.3% and 1.1%. Moncton's average rents increased by 1.3% and apartment occupancy improved by 60 bps. These improvements were partially offset by higher rental incentives and lower commercial occupancy in the quarter. Expenses were up 1.5% in Moncton during Q3 as operating efficiencies helped to offset increased insurance and electricity costs.

Saint John recorded a 2.2% decrease in property revenue in Q3 and a 3.3% decrease in NOI. A 190 bps decrease in occupancy for the quarter more than offset rental rate growth of 1.3%. The Saint John rental market is showing signs of softness. Killam has increased the use of incentive offerings and increase advertising efforts in response. Total operating expenses were down 1.1% in Q3 as lower water costs and property tax savings from successful tax assessment appeals offset increased insurance and advertising costs.

Ontario
Killam's Ontario portfolio generated 15% of Killam's apartment same property NOI for the nine months ended September 30, 2016. The same property Ontario portfolio achieved 3.0% and 1.8% revenue growth for the three and nine months ended September 30, 2016, and 4.9% and 2.5% NOI growth in the same periods.

The Q3 top-line increase was realized from increased rents of 1.9%, a 60 bps gain in occupancy and an improvement in bad debts. Total operating expenses increased by only 0.2% in Q3 as savings from lower water consumption and lower natural gas rates offset increased property tax assessments.

Newfoundland and Labrador
Killam's St. John's portfolio generated 8% of Killam's apartment same property NOI year-to-date in 2016. Same property revenue for the St. John's portfolio increased by 0.2% and 0.7% for the three and nine months ended September 30, 2016. Overall, NOI for the St. John's same property portfolio declined by 1.6% and 1.0% for the three and nine months ended September 30, 2016 due to higher expenses.

Despite softness in the economy and the rental market in St. John's following lower oil prices, the portfolio continues to achieve revenue growth. A 2.5% increase in rental rates quarter-over-quarter was partially offset by a 120 bps decline in occupancy in Q3-2016 compared to Q3-2015. Total same property operating expenses increased by 4.8% in Q3-2016, driven by higher insurance premiums and property tax increases of 15% as a result of higher tax assessments. These tax assessments are completed in a 3-year cycle for the region that was effective January 1, 2016.

Prince Edward Island
Killam's Charlottetown portfolio represents 7% of the apartment same property NOI. Charlottetown achieved 2.3% and 2.5% revenue growth for the three and nine months ended September 30, 2016. Overall, Charlottetown recorded 1.9% and 7.6% in NOI growth for Q3-2016 and year-to-date.

Revenue growth in Q3 was attributable to increased rents, up 0.9%, and a 100 bps improvement in occupancy levels. Total operating expenses increased 3.0% in Q3-2016 due to increases in insurance premiums and property tax expense.

Alberta
Killam has a 50% interest in a 307-unit building in downtown Calgary that represents 2% of its apartment NOI for the first nine months of 2016. Overall, Alberta recorded a 10.8% and 21.6% decline in NOI for the three and nine months ended September 30, 2016.

Killam's Calgary asset recorded a 10.2% decline in revenue quarter-over-quarter (and 16.4% year-to-date) due to the softening of the Alberta rental market. Average rental rates at this property have declined 12.7% to $1,210. For Q3-2016, occupancy was 92.1%, a 460 bps increase over Q3-2015. The property has continued on a positive occupancy trend in each quarter of 2016 and it is currently 92% leased. Total operating expenses decreased by 9.0% quarter-over-quarter due to lower electricity costs and operational efficiencies.

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

MHC Results

For the three months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$4,803**	$4,629	3.8%	**$4,772**	$4,629	3.1%	**$31**	$—	— %
Property operating expenses									
Operating expenses	**1,109**	1,002	10.7%	**1,057**	1,035	2.1%	**52**	(33)	(257.6)%
Utility and fuel expenses	**449**	465	(3.4)%	**483**	465	3.9%	**(34)**	—	— %
Property taxes	**147**	132	11.4%	**147**	132	11.4%	**—**	—	— %
Total operating expenses	**$1,705**	$1,599	6.6%	**$1,687**	$1,632	3.4%	**$18**	$(33)	(154.5)%
NOI	**$3,098**	$3,030	2.2%	**$3,085**	$2,997	2.9%	**$13**	$33	(60.6)%
Operating margin %	**64.5%**	65.5%	(100) bps	**64.6%**	64.7%	(10) bps	**41.9%**	—%	—

For the nine months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$11,412**	$11,092	2.9%	**$11,378**	$11,092	2.6%	**$34**	$—	— %
Property operating expenses									
Operating expenses	**2,741**	2,600	5.4%	**2,689**	2,711	(0.8)%	**52**	(111)	(146.8)%
Utility and fuel expenses	**1,117**	1,156	(3.4)%	**1,152**	1,156	(0.3)%	**(35)**	—	— %
Property taxes	**447**	437	2.3%	**447**	438	2.1 %	**—**	(1)	(100.0)%
Total operating expenses	**$4,305**	$4,193	2.7%	**$4,288**	$4,305	(0.4)%	**$17**	$(112)	(115.2)%
NOI	**$7,107**	$6,899	3.0%	**$7,090**	$6,787	4.5%	**$17**	$112	(84.8)%
Operating margin %	**62.3%**	62.2%	10 bps	**62.3%**	61.2%	110 bps	**50.0%**	—%	—

Killam's MHC business accounted for 9% of NOI from property operations during the nine months ended September 30, 2016, and 2015.

MHC same property revenue increased 3.1% and 2.6% for the three and nine months ended September 30, 2016, compared to the same periods of 2015 due to increased rental rates and improved occupancy. MHC rental rate growth was 2.7% year-to-date 2016 resulting in a weighted average rent per site of $240, up from $234 in Q3-2015. Occupancy increased to 97.7% in Q3-2016, which was a 20 bps increase from 97.5% in Q3-2015.

Total same property expenses increased by 3.4% for Q3-2016 due to higher property taxes, salaries and communitiy events associated with Killam's tenant retention initiatives. Year-to-date, total same property expenses decreased by $17 thousand or 0.4% due to lower water consumption, a milder winter and spring, and operational efficiencies that offset increased property tax expense. Overall, the MHC portfolio generated same property NOI growth of 2.9% and 4.5% for the three and nine months ended September 30, 2016.

Commercial Results

Killam has a commercial portfolio of four properties in Halifax, Nova Scotia, totaling 248,000 square feet. The Brewery Market property contains 158,000 square feet of retail and office space, and a parcel of adjacent land that is currently being developed. The Medical Arts building contains 18,000 square feet of office space and Killam plans to redevelop this property in the future. Along with the 50% ownership of two commercial properties including Killam's head office in Halifax, this commercial portfolio accounted for $1.6 million or 2% of Killam's total NOI for the first nine months of 2016, with an overall occupancy of 98.9%. As well, included in the apartment segment is an additional 118,000 square feet of ancillary commercial space in various residential properties across the portfolio.

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

PART IV

Other Income and Expenses

Other Income

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
	$313	$378	(17.2)%	**$1,012**	$1,105	(8.4)%

Other income includes property management fees, interest on bank account balances, interest on loans receivable and net revenue associated with the sale of homes in Killam's MHC segment. The 17.2% decrease quarter-over-quarter relates to lower interest revenue earned, as the $4.0 million mezzanine loan was repaid in August 2016. The 8.4% decrease for the comparative nine-month period relates to lower home sale earnings in Q1-2016 in addition to lower interest revenue.

Financing Costs

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
Mortgage, loan and construction loan interest	**$7,775**	$7,991	(2.7%)	**$23,317**	$23,905	(2.5%)
Interest on exchangeable units	**663**	—	—%	**2,079**	—	—%
Amortization of fair value adjustments on assumed debt	**(127)**	(153)	(17.0%)	**(394)**	(429)	(8.2%)
Amortization of loss on interest rate hedge	**15**	15	—%	**45**	45	—%
Unrealized (gain) loss on derivative liability	**(15)**	—	—%	**116**	—	—%
Convertible debenture interest	**660**	1,706	(61.3%)	**3,552**	5,122	(30.7%)
Capitalized interest	**(236)**	(163)	44.8%	**(700)**	(925)	(24.3%)
	$8,735	$9,396	(7.0%)	**$28,015**	$27,718	1.1%

Financing costs decreased $0.7 million or 7.0% in Q3 and increased $0.3 million or 1.1% for the nine months ended September 30, 2016, compared to the same periods in 2015. On conversion to the REIT effective January 1, 2016, Killam had an IFRS requirement to record distributions relating to Exchangeable Units as interest expense (see note 2 of condensed consolidated interim financial statements). Excluding the expense recorded associated with the Exchangeable Units, interest expense decreased 14.3% quarter-over-quarter and 6.5% year-to-date. The decrease in the comparative three and nine month period was due primarily to the redemption of $57.5 million in convertible debentures on July 4, 2016, a change in Killam's accounting for the convertible debentures following the REIT conversion and coupled with lower interest rates on refinancings in both 2015 and 2016.

Mortgage and loan interest expense was $7.8 million in Q3-2016, down from $8.0 million in Q3-2015, a decrease of 2.7%. Year-to-date mortgage and loan interest expense decreased $0.6 million or 2.5%. This decrease is attributable to mortgage refinancings at lower interest rates. The average interest rate on refinancings year-to-date was 2.35%, 203 bps lower than the average interest rate before refinancing.

Interest expense associated with the convertible debentures decreased by $1.0 million and $1.6 million for the three and nine month periods ended September 30 in 2016. The decrease was a result of the redemption of $57.5 million of convertible debentures on July 4, 2016, as well as a change in accounting treatment related to Killam's conversion to a REIT. Killam was required to fair value the convertible debentures at the time of conversion and Killam has elected to measure the convertible debentures at fair value at the end of each period. Interest expense is recorded based on the stated interest rate for each convertible debenture compared to the effective interest rate, reflecting the value of the convertible debenture, as required for accounting purposes under the corporate structure.

Capitalized interest decreased $0.1 million and $0.2 million for the three and nine month periods of 2016 compared to 2015. Capitalized interest will vary depending on how many development projects are ongoing and how far along they are in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates, and may at times enter into forward interest rate hedges. An annualized 100 bps change in the interest rate on Killam's mortgage and vendor debt as at September 30, 2016, would affect financing costs by approximately $9.9 million per year. However, only $109.4 million of Killam's fixed mortgage and vendor debt matures in the next twelve months. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase/ (decrease) in interest rates, financing costs would increase/ (decrease) by $1.1 million per year.

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

Depreciation Expense

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
	$224	$196	14.3%	**$651**	$566	15.0%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and administrative office furniture, fixtures and computer software and equipment. Although the vehicles and equipment are used at various properties, they are not considered part of investment properties and are depreciated for accounting purposes. The increase for the three and nine months ended September 30, 2016, compared to the same periods in 2015, was primarily due to increased costs associated with upgrades to Killam's accounting and property management software. The upgrades include an enhanced mobile platform which will allow for improved operational efficiencies and enhanced leasing capabilities. The upgrade was completed in September 2016.

Amortization of Deferred Financing Costs

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
	$383	$480	(20.2)%	**$1,116**	$1,409	(20.8)%

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

Deferred financing amortization decreased 20.2% and 20.8% respectively, for the three and nine months ended September 30, 2016, as a result of a change in accounting treatment related to the Trust's convertible debentures upon conversion to the REIT. This change resulted in the write-off of the remaining deferred financing costs associated with the convertible debentures through retained earnings on January 1, 2016. This change was required as Killam elected to record the full outstanding amount of each convertible debenture at fair value for accounting purposes.

Administration Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
Administration (including REIT conversion costs)	**$3,051**	$2,474	23.3%	**$9,719**	$7,356	32.1%
REIT conversion costs	**(58)**	—	—%	**(1,308)**	(177)	639.0%
Administration (excluding REIT conversion costs)	**$2,993**	$2,474	21.0%	**$8,411**	$7,179	17.2%
As a percentage of total revenues	**6.6%**	5.7%		**6.4%**	5.7%	

Administration expenses include expenses that are not specific to an individual property. These expenses include TSX related costs, management and head office salaries and benefits, marketing costs, office equipment leases, professional fees and other head office and regional office expenses. Administration expense for the three and nine months ended September 30, 2016, includes one-time costs associated with the REIT conversion.

During the third quarter, total general and administrative costs increased $0.6 million or 23% compared to the same period in 2015 primarily driven by an increase of $0.7 million due to higher non-cash unit-based compensation costs related to restricted trust units ("RTUs"). Vesting was accelerated for the RTU match component for certain executives as a result of the plan's retirement clause. The expense related to these units is therefore fully recognized in the performance period as no further service requirement exists. Previously, the match component of the RTU plan was expensed for all participants over three years. As a result, we expect G&A as a percentage of revenues to be approximately 6.4% for 2016. In 2017, we expect to manage G&A to approximately 6% of total revenues.

During the third quarter, Killam's Compensation Committee performed their periodic review of the Company's incentive plan to consider alignment with industry best practices. The Committee engaged a compensation consultant and it is expected revisions to the incentive plan will be implemented before year-end 2016 for the performance period beginning January 1, 2017.

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

Fair Value Adjustment on Investment Property

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
	$1,144	$1,368	(16.4%)	**($888)**	$1,548	(157.4)%

Killam recorded a fair value gain of $1.1 million in Q3-2016 compared to $1.4 million in Q3-2015. Killam realized slight cap-rate compression, related to certain prime assets in the downtown Halifax market, which resulted in the increase in fair value during the quarter.

The effective weighted average cap-rate used to value the apartment properties decreased 8 bps to 5.50% from the same period in 2015, and 3 bps from December 31, 2015. The cap-rates for Killam's MHC properties increased 16 bps from the same period in 2015.

Fair Value Adjustment on Convertible Debentures

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
	($104)	$—	—%	**$658**	$—	—%

In connection with Killam's conversion to a REIT and the IFRS requirements for convertible debentures redeemable into Trust Units, Killam has elected to record the full outstanding amount of each convertible debenture at fair value determined using the closing trading price for the publicly traded convertible debentures. Changes in fair value are recognized in the condensed consolidated interim statement of income and comprehensive income. For the three and nine months ended September 30, 2016, there was an unrealized loss of $0.1 million and unrealized gain of $0.7 million, respectively, due to the change in market price of the convertible debentures. Prior to the conversion to a REIT, the convertible debentures were classified as other financial liabilities and recorded at amortized cost using the effective interest rate method, net of deferred financing costs.

Fair Value Adjustment on Unit-based Compensation

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
	$181	$—	—%	**($979)**	$—	—%

Killam’s Restricted Trust Unit ("RTU") Plan gives members of the senior executive team and director level employees the right to receive a percentage of their annual bonus, and non-executive members of the board of Trustees the right to receive a percentage of their annual retainer, in the form of RTUs in lieu of cash. The RTUs are intended to facilitate long-term ownership of Trust Units and align the interests of Trustees and senior management with those of the unitholders.

As a result of Killam being an open-ended mutual fund trust, whereby each unitholder of Trust Units is entitled to redeem their Units in accordance with the conditions specified in Killam’s DOT, under IFRS, the underlying Trust Units relating to the RTU awards are not classified as equity and are instead considered financial liabilities. As such, these RTU awards must be presented as liabilities and remeasured at fair value at each reporting date. For the three months ended September 30, 2016, there was an unrealized gain on re-measurement of $0.2 million and for the nine months ended September 30, 2016, an unrealized loss of $1.0 million, due to the change in market price of the underlying Trust Units. Prior to Killam converting to an open-ended mutual fund trust, the related RTU expense was limited to the amortization of the fair value of the award over the applicable vesting period and was included in administration costs within the condensed consolidated interim statement of income and comprehensive income.

Fair Value Adjustment on Exchangeable Units

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
	$2,428	$—	—%	**($8,354)**	$—	—%

Killam’s Exchangeable Units were issued effective January 1, 2016, in connection with Killam’s conversion to a REIT. Distributions paid on Exchangeable Units are based on the distributions paid to Killam’s unitholders. The Exchangeable Units are exchangeable on a one-for-one basis into Trust Units at the option of the holder. The fair value of these Exchangeable Units is based on the trading price of Killam’s Trust Units.

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

In accordance with IFRS, Killam accounts for its Exchangeable Units as a financial liability and remeasures the liability at each reporting period, and includes this re-measurement in the condensed consolidated statement of income and comprehensive income. For the three and nine months ended September 30, 2016, there was an unrealized adjustment on re-measurement resulting in a $2.4 million gain and $8.4 million loss, respectively, due to changes in the market price of the underlying Killam Trust Units. A description of the key components of the re-measurement of Exchangeable Units is included in note 2 of Killam's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2016.

Deferred Tax Expense (Recovery)

Killam converted to a real estate investment trust effective January 1, 2016, and as such, now qualifies as a REIT pursuant to the Canadian *Income Tax Act* (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. As such, Killam is now a flow-throw 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 it to continually qualify as a REIT and is expected to distribute all of its taxable income to Unitholders, and therefore is entitled to deduct such distributions for income tax purposes. Effective January 1, 2016, Killam recorded the derecognition of a portion of the deferred tax liability in the amount of $40.0 million to reflect the tax status of the Trust as a flow-through vehicle. In Q3-2016 Killam recorded a adjustment to the deferred tax liability of $1.6 million to reflect a change in allocation. For the three and nine months ended September 30, 2016, Killam recorded deferred tax expense of $1.9 million and $2.2 million related to the corporate subsidiary entity of the REIT.

PART V

Per Unit Calculations

As a result of Killam being an open-ended mutual fund trust, unitholders are entitled to redeem their Trust Units, subject to certain restrictions. The impact of this redemption feature causes Killam's Trust Units to be treated as financial liabilities under IFRS. Consequently, all per Unit calculations are considered non-IFRS measures. The following table explains the number of Units used in the calculation of non-IFRS financial measures on a per unit basis:

	Weighted Average Number of Units/Shares (000's)				Outstanding Number of Units as at September 30,
	Three months ended September 30,		Nine months ended September 30,		
	2016	2015	**2016**	2015	**2016**
Trust Units/Common Shares	**66,932**	62,470	**62,040**	61,874	**67,604**
Exchangeable Units[1]	**4,484**	—	**4,640**	—	**3,865**
Basic number of units/shares	**71,416**	62,470	**66,680**	61,874	**71,469**
Plus:					
Units under option plan	—	—	—	110	—
Units under restricted trust unit/restricted share unit plan[2]	**292**	192	**272**	177	**293**
Convertible debentures	**3,337**	7,442	**6,064**	0	
Dilutive number of units/shares	**75,045**	70,104	**73,016**	62,161	**71,762**

(1) See note 2 to the accompanying unaudited condensed consolidated interim financial statements for details of the Exchangeable Units.

(2) See note 2 to the accompanying unaudited condensed consolidated interim financial statements for details of Killam's RTU plan.

(3) The calculation of the diluted weighted average units outstanding includes the convertible debentures as they are dilutive for FFO and AFFO purposes for the three and nine months ended September 30, 2016, as well as the three month period ended September 30, 2015. The convertible debentures are excluded for the nine months ended September 30, 2015, as they are anti-dilutive.

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

Funds from Operations

FFO are recognized as an industry-wide standard measure for real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. The calculation of FFO includes adjustments specific to the real estate industry applied against net income to calculate a supplementary measure of performance that can be compared with other real estate companies and real estate investment trusts. 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. FFO do not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. 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. FFO for the three and nine months ended September 30, 2016, and 2015, are determined as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
Net income	**$17,966**	$11,621	54.6%	**$66,801**	$27,731	140.9%
Fair value adjustments	**(3,649)**	(1,368)	166.8%	**9,563**	(1,548)	(717.8%)
Loss (gain) on disposition	**—**	(74)	(100.0%)	**264**	109	142.2%
Non-controlling interest	**(2)**	(284)	(99.3%)	**(528)**	(793)	(33.4%)
Deferred tax expense (recovery)	**1,953**	4,831	(59.6%)	**(36,065)**	10,793	(434.2%)
Interest expense related to exchangeable units	**663**	—	—%	**2,079**	—	—%
Unrealized (gain) loss on derivative liability	**(15)**	—	—%	**116**	—	—%
Depreciation on owner-occupied building	**47**	53	(11.3%)	**124**	146	(15.1%)
REIT conversion costs	**58**	—	0.0%	**1,308**	177	639.0%
FFO	**$17,021**	$14,779	15.2%	**$43,662**	$36,615	19.2%
FFO unit/share - basic	**$0.24**	$0.24	—%	**$0.66**	$0.59	11.9%
FFO unit/share - diluted(1)	**$0.24**	$0.24	—%	**$0.65**	$0.59	10.2%
FFO (including effect of debenture conversions)	**17,680**	16,485	7.2%	**47,212**	—	—
Weighted average units/shares- basic (000's)	**71,416**	62,470	14.3%	**66,680**	61,874	7.8%
Weighted average number of units/shares - diluted (000's)	**75,045**	70,104	7.0%	**73,016**	62,161	17.5%

(1) The calculation of weighted average units outstanding for diluted FFO includes the convertible debentures for the three and nine months ended September 30, 2016, as they are dilutive.

(2) The calculation of weighted average shares outstanding for diluted FFO includes the convertible debentures for the three months ended September 30, 2015, as they are dilutive and excludes the convertible debentures for the nine months ended September 30, 2015 as they are anti-dilutive.

(3) For FFO purposes, the price used to calculate the conversion feature of the convertible debentures is the conversion price of $13.40 for the 5.65% convertible debentures and $14.60 for the 5.45% convertible debentures.

Killam earned FFO of $17.0 million including the effect of the debenture conversion, or $0.24 per unit (diluted) for the three months ended September 30, 2016, compared to $14.8 million, or $0.24 per share (diluted), during the three months ended September 30, 2015. The increase in FFO is attributable to contributions from acquisitions and completed developments ($0.8 million), same property NOI growth of 3.0% ($0.8 million), interest expense savings on refinancings at lower interest rates ($0.4 million) offset by a reduction in corporate income ($0.1 million), increase in G&A costs ($0.5 million) due to accelerated vesting of RTUs for certain participants, as a result of the RTU plan's retirement clause, and a 14.3% increase in the number of weighted average units outstanding from the equity raise completed in June 2016.

Killam earned FFO of $43.7 million, or $0.65 per unit (diluted) for the nine months ended September 30, 2016, compared to $36.6 million or $0.59 per share (diluted) for the same nine-month period in the prior year. The 19.3% increase is attributable to same property NOI growth of 4.7% ($3.3 million), contributions from acquisitions and completed developments ($1.9 million), interest expense savings on refinancings ($1.3 million), interest and deferred financing expense savings due to the change in accounting treatment of the convertible debentures on conversion to the REIT ($1.1 million), interest expense savings on the redemption of the 5.65% convertible debentures ($0.8 million), as well as the early pay-out of a head lease ($0.5 million). These increases were offset by an increase in administration expense ($1.2 million) and an 7.8% increase in the number of weighted average units outstanding.

FFO have been adjusted for costs incurred for the three and nine months ended September 30, 2016, and 2015 to complete the conversion from a corporation to a REIT effective January 1, 2016. These costs were unique to Killam's corporate structure and therefore have been removed for FFO purposes.

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

Adjusted Funds from Operations

AFFO is a supplemental measure used by real estate analysts and investors to represent FFO after taking into consideration the capital spend related to maintaining the earning capacity of a portfolio versus NOI enhancing capital investments. AFFO is a non-IFRS measure and 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.

In order to provide investors with information to assist in assessing the Trust's payout ratio, Management has calculated AFFO using $450 per apartment unit for maintenance capital expenditures. The MHC industry does not have a standard amount for “maintenance” related capital expenditures. Management has also assumed $100 per MHC site as a reasonable estimate of non-NOI enhancing capital expenditures per MHC site. The weighted average number of rental units owned during the period was used to determine the capital adjustment applied to FFO to calculate AFFO.

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
FFO	**$17,021**	$14,779	15.2%	**$43,662**	$36,615	19.2%
Maintenance Capital Expenditures						
Apartments	**(1,509)**	(1,476)	2.2%	**(4,490)**	(4,362)	2.9%
MHCs	**(129)**	(129)	—%	**(387)**	(387)	—%
AFFO	**$15,383**	$13,174	16.8%	**$38,785**	$31,866	21.7%
AFFO per unit/share - basic	**$0.22**	$0.21	4.8%	**$0.58**	$0.52	11.5%
AFFO per unit/share - diluted(1)	**$0.21**	$0.21	—%	**$0.58**	$0.51	13.7%
AFFO payout ratio - diluted	**70%**	71%	(100) bps	**78%**	88%	(1,000) bps
AFFO payout ratio - rolling 12 months(2)	**81%**	90%	(900) bps	—	—	—
AFFO (including effect of debenture conversions)	**$16,042**	—	—	—	—	—
Weighted average number of units/shares - basic (000's)	**71,416**	62,470	14.3%	**66,680**	61,874	7.8%
Weighted average number of units/shares - diluted (000's)	**75,045**	62,662	19.8%	**66,951**	62,161	7.7%

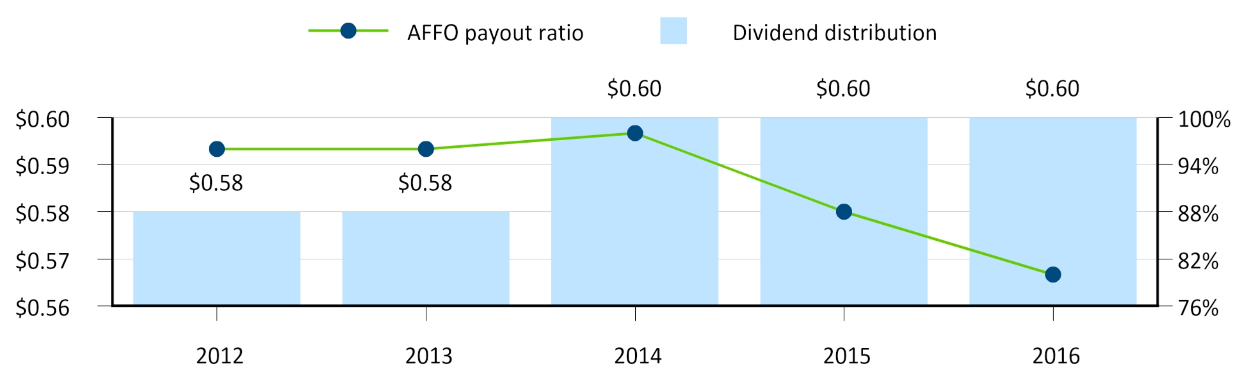
(1) The calculation of weighted average units outstanding for diluted AFFO includes the convertible debentures for the three months ended September 30, 2016, as they are dilutive. The calculation for the nine-months ended September 30, 2016 as well as the three-and-nine month periods ended September 30, 2015, exclude the convertible debentures as they are anti-dilutive. For AFFO purposes, the price used to calculate the conversion feature of the convertible debentures is the conversion price of $13.40 for the 5.65% convertible debentures and $14.60 for the 5.45% convertible debentures.

(2) Based on Killam's annualized distribution/dividend of $0.60 for the 12-month period ended September 30, 2016, and 2015.

The AFFO payout ratio of 70% for the three months ended September 30, 2016, is the lowest payout ratio in Killam’s history and has improved from the payout ratio of 71% for the three months ended September 30, 2015.

Killam’s Board evaluates the Trust’s payout ratio on a quarterly basis. The Board has not set a specific AFFO payout target, but believes that a ratio below 90% is important. The Trust’s 12-month rolling payout ratio for the period ended September 30, 2016, is 81%, a 900 bps improvement from the 12-month rolling payout ratio for the period ended September 30, 2015, of 90%.

Killam's Annual Dividend Distribution & AFFO Payout Ratio (12-Month Rolling)



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

Cash Generated from Operating Activities to AFFO Reconciliation

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below reconciles cash generated from operating activities to AFFO.

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
Cash generated from operating activities	**$21,316**	$13,499	57.9 %	**$43,783**	$27,851	57.2 %
Adjustments:						
Net change in non-cash operating activities	**(3,937)**	3,909	(200.7)%	**(241)**	12,836	(101.9)%
Non-controlling interest	**(2)**	(284)	(99.3)%	**(528)**	(793)	(33.4)%
Non-cash compensation expense	**(144)**	(128)	12.5 %	**(1,004)**	(265)	278.9 %
Interest paid	**8,377**	7,802	7.4 %	**27,807**	26,356	5.5 %
Financing costs	**(8,735)**	(9,396)	(7.0)%	**(28,015)**	(27,718)	1.1 %
Interest expense related to exchangeable units	**663**	—	—	**2,079**	—	—
Unrealized (gain)/loss on derivative liability	**(15)**	—	—	**116**	—	—
REIT conversion costs	**58**	—	—	**1,308**	177	639.0 %
Depreciation and amortization	**(560)**	(623)	(10.1)%	**(1,643)**	(1,829)	(10.2)%
Provision for maintenance property capital investments	**(1,638)**	(1,605)	2.1 %	**(4,877)**	(4,749)	2.7 %
AFFO	**$15,383**	$13,174	16.8 %	**$38,785**	$31,866	21.7 %

Distribution Reinvestment Plan ("DRIP") and Net Distributions Paid

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
Distributions declared on Trust Units/Common Shares	**$10,090**	$9,438	6.9 %	**$28,099**	$28,013	0.3 %
Distributions declared on Exchangeable Units	**663**	—	— %	**2,079**	—	— %
Distributions declared on awards outstanding under RTU/RSU plan	**37**	29	27.6%	**114**	77	48.1%
Total distributions declared	**$10,790**	$9,467	14.0%	**$30,292**	$28,090	7.8%
Less:						
Distributions on Trust Units reinvested	**(1,302)**	(2,111)	(38.3)%	**(4,726)**	(5,394)	(12.4)%
Distributions on RTU/RSUs reinvested	**(37)**	(29)	27.6%	**(114)**	(77)	48.1%
Net distributions paid	**$9,451**	$7,327	29.0%	**$25,452**	$22,619	12.5%
Percentage of distributions reinvested	**12.4%**	22.6%		**16.0%**	19.5%	

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

PART VI

Investment Properties

As at September 30,

	2016	2015	% Change
Investment properties	**$1,864,963**	$1,791,219	4.1%
Investment properties under construction ("IPUC")	**46,920**	30,871	52.0%
	$1,911,883	$1,822,090	4.9%

Continuity of Investment Properties

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
Balance, beginning of period	**$1,839,852**	$1,771,136	3.9%	**$1,794,580**	$1,693,055	6.0%
Acquisition of properties(1)	**36**	8,972	(99.6)%	**34,019**	39,715	(14.3)%
Disposition of properties	**—**	—	— %	**(8)**	—	— %
Transfer to IPUC	**—**	—	— %	**—**	(2,300)	(100.0)%
Transfer from IPUC	**15,490**	—	— %	**15,490**	36,147	(57.1)%
Capital expenditures	**8,442**	9,743	(13.4)%	**21,770**	23,054	(5.6)%
Fair value adjustment - Apartments	**541**	1,795	(69.9)%	**(507)**	2,032	(125.0)%
Fair value adjustment - MHCs	**252**	(427)	(159.0)%	**(96)**	(484)	(80.2)%
Fair value adjustment - Other	**350**	—	— %	**(285)**	—	— %
Balance, end of period	**$1,864,963**	$1,791,219	4.1%	**$1,864,963**	$1,791,219	4.1%

(1) The acquisition of the remaining 51% interest in Garden Park Apartments in June 2016 is not reflected in the acquisition of properties in the table above since the property was already recorded at 100% as Killam had control over the property.

The key valuation assumption used to determine the fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at September 30, 2016, December 31, 2015, and September 30, 2015, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	September 30, 2016			December 31, 2015			September 30, 2015		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**4.12%**	**7.75%**	**5.50%**	4.12%	8.00%	5.52%	4.50%	8.00%	5.58%
MHCs	**5.75%**	**8.00%**	**6.80%**	5.75%	8.00%	6.82%	5.75%	8.00%	6.64%

2016 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Year Built	Units	Purchase Price(1)
Apartments					
Kanata Lakes III(2)	Ottawa	10-Jun-16	2015	173	$31,123
270 Parkside Drive	Fredericton	17-Jun-16	1979	28	1,770
Garden Park Apartments(3)	Halifax	30-Jun-16	1979	128	23,724
Total Acquisitions				329	$56,617

(1) Purchase price does not include transaction costs.

(2) Purchase price represents 50% ownership in a 173-unit building, which includes 2,712 SF of commercial space and a 25% interest in a shared clubhouse. This building is part of a five-building complex. Killam and its 50/50 partner now own three of the buildings and have the two remaining buildings under contract with closings scheduled for Q1-2017.

(3) Purchase price represents Killam's acquisition of the remaining 51.02% interest in Garden Park Apartments. Post acquisition, Killam has a 100% interest in the 246-unit building, which includes 8,159 SF of commercial space.

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

Investment Properties Under Construction

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
Balance, beginning of period	**$55,356**	$28,289	95.7%	**$45,676**	$40,840	11.8%
Capital expenditures	**6,818**	2,419	181.9%	**16,034**	13,396	19.7 %
Interest capitalized	**236**	163	44.8%	**700**	925	(24.3)%
Land acquisitions	**—**	—	—%	**—**	10,700	(100)%
Land dispositions	**—**	—	—%	**—**	(1,143)	(100)%
Transfer from investment properties	**—**	—	—%	**—**	(36,147)	(100)%
Transfer to investment properties	**(15,490)**	—	—%	**(15,490)**	2,300	(773.5)%
Balance, end of period	**$46,920**	$30,871	52.0%	**$46,920**	$30,871	52.0%

Construction of the 142-unit Southport development, located in downtown Halifax, was substantially completed on September 1, 2016. Killam owns a 50% interest in the project (representing 70 rental units and 1,880 SF of commercial space). Killam's cost for the development is $14.7 million ($210,000 per unit) resulting in an all-cash yield of approximately 5.5%, an approximate 75 bps premium over the yield anticipated on acquisitions of similar quality assets at that location. Southport's lease-up has exceeded Management's expectations and is currently 94% leased only two months after opening. Killam has not provided any rental incentives or discounts as part of the lease-up and has also earned full parking rates.

During 2015, Killam acquired a 50% interest in vacant land for a future development located in downtown Halifax across from the waterfront. Killam and its 50% partner began construction of a 242-unit building on this site late in the third quarter of 2015 and the project is expected to be completed in Q4-2017. The cost for the development is approximately $70.2 million ($290,000 per unit) resulting in an all-cash yield of approximately 5.5%, an approximate 75 bps premium over the yield anticipated on acquisitions of similar quality assets at this location. As at September 30, 2016, Killam invested $12.6 million in the project, representing its 50% interest in the project. As Killam has control over the development 100%, of the Alexanders costs are included in IPUC.

During Q3-2016 Killam commenced construction on a 93-unit, seven story development in Cambridge, ON. The development is adjacent our 122-unit building, Saginaw Gardens, which was completed in June 2015. The new building will include underground parking, a guest suite, fitness facility and tenant lounge. The units are expected to be approximately 30 sq. ft. larger than Saginaw Gardens. The project is expected to cost approximately $25.0 million ($269,000 per unit) resulting in an all-cash yield of approximately 5.4%, an approximate 65 bps premium over the yield anticipated on acquisitions of similar quality assets at this location.

Killam has the following land available for future development:

Property	**Location**	**Development Potential (# of Units)**	**Status**
Silver Spear[(1)]	Mississauga, ON	64	In design and approval process
Spring Garden Terrace Land	Halifax, NS	106	Approved development agreement
The Governor	Halifax, NS	42	As of right
Carlton Houses	Halifax, NS	70	Future development
Medical Arts (Spring Garden)	Halifax, NS	200	Future development
1335 Hollis Street	Halifax, NS	30	Future development
Block 4	St. John's, NL	80	As of right
Topsail Road	St. John's, NL	225	Approved development agreement
Grid 5 vacant land[(1)]	Calgary, AB	198	Future development
Total Development Opportunities		**1,015**	

(1) Represents Killam's 50% interest in the potential development units.

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

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the three and nine months ended September 30, 2016, Killam invested a total of $8.4 million and $21.8 million in its portfolio, compared to $9.7 million and $23.1 million for the three and nine months ended September 30, 2015.

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
Apartments	**$7,980**	$8,459	(5.7)%	**$20,336**	$20,403	(0.3)%
MHCs	**408**	707	(42.3)%	**1,010**	1,705	(40.8)%
Commercial	**55**	577	(90.5)%	**424**	946	(55.2)%
	$8,443	$9,743	(13.3)%	**$21,770**	$23,054	(5.6)%

Apartments - Capital Spend

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

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
Building improvements	**$4,812**	$5,205	(7.6)%	**$11,245**	$11,407	(1.4)%
Suite renovations	**2,502**	2,462	1.6%	**7,347**	6,994	5.0%
Appliances	**321**	266	20.7%	**795**	701	13.4%
Boilers and heating equipment	**207**	419	(50.6)%	**513**	978	(47.5)%
Other	**56**	48	16.7%	**214**	137	56.2%
Equipment	**74**	43	72.1%	**193**	161	19.9%
Parking lots	**—**	13	(100.0)%	**3**	16	(81.3)%
Land improvements	**8**	3	166.7%	**26**	9	188.9%
Total capital spend	**$7,980**	$8,459	(5.7)%	**$20,336**	$20,403	(0.3)%
Average number of units outstanding	**13,745**	13,096	5.0%	**13,710**	12,779	7.3%
Capital spend - $ per unit	**$581**	$646	(10.1)%	**$1,483**	$1,597	(7.1)%

Annual capital investment includes a mix of maintenance capital and value enhancing upgrades. Maintenance capital varies with market conditions and relates to investments that are not expected to lead to an increase in NOI, or increased efficiency, of a building; however, it is expected to extend the life of a building. Examples of maintenance capital include roof and window repairs/replacements, and is in addition to regular repairs and maintenance costs that are expensed to NOI. Value enhancing upgrades are investments in the properties that are expected to result in higher rents and/or increased efficiencies. These include unit and common area upgrades and energy and water saving investments.

Killam invested $581 and $1,483 per unit for the three and nine months ended September 30, 2016, compared to $646 and $1,597 per unit for the same periods ended September 30, 2015. Of the $8.0 million capital investment made in the apartment segment in Q3-2016, approximately 60% was invested in building improvements including common area renovations and energy efficiency investments to increase the quality of Killam's portfolio.

In the nine months ended September 30, 2016, Killam installed 2,617 new low-flow toilets and upgraded various common area lighting, resulting in annualized savings of $0.4 million with a payback of approximately 2.75 years. Anticipated efficiency investments for the remainder of 2016 include the installation of an additional 1700 low-flow toilets, boiler upgrades and various other electrical related projects.

Approximately 31% of the apartment capital investment in Q3-2016 was invested in suite renovations. Killam continues to focus on unit upgrades to maximize occupancy and rental increases.

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

Killam also continues to reposition properties that show significant value creation opportunities by upgrading suites and generating increased NOI through higher rents. As an example, Garden Park Apartments in Halifax, the property that Killam now owns 100%, was identified as a property with potential for repositioning and rental growth. So far in 2016, Killam has completed 36-unit renovations at this property with capital spending averaging $11,000 per unit turn, which includes new flooring, kitchen and bathroom upgrades. These upgrades have achieved rental increases of approximately 20% and an average return on investment of 21%. In Q3-2016, six units were completed and rented with an average ROI of 24%. The Company expects to complete an additional 40-60 unit upgrades over the course of the next 24 months as turnover permits.

The timing of capital spending is variable and 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 impacts capital requirements.

Value enhancing capital improvements increase the operating effectiveness and profitability of Killam's apartment portfolio. Killam expects to invest approximately $31 - $33 million during 2016 on capital investments across the apartment portfolio.

MHCs - Capital Spend

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

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	% Change	**2016**	2015	% Change
Water and sewer upgrades	**$192**	$353	(45.6)%	**$409**	$820	(50.1)%
Site expansion and land improvements	**132**	115	14.8%	**343**	179	91.6%
Other	**71**	186	(61.8)%	**210**	353	(40.5)%
Roads and paving	**9**	30	(70.0)%	**20**	281	(92.9)%
Equipment	**4**	23	(82.6)%	**28**	72	(61.1)%
Total capital spend - MHCs	**$408**	$707	(42.3)%	**$1,010**	$1,705	(40.8)%
Average number of units outstanding	**5,165**	5,165	—%	**5,165**	5,165	—%
Capital spend - $ per site	**$79**	$137	(42.3)%	**$196**	$330	(40.6)%

Management expects to invest between $300 and $500 in capital per MHC site on an annual basis. As with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is considered value enhancing. Management estimates that $100 per unit is allocated to maintenance capital, including costs to support the existing infrastructure, and the remaining amount increases the value of the properties, with improved roadways, ability to accommodate future expansion, and community enhancements, such as the addition of playgrounds. The cost of most capital projects will be recovered through above guideline increases in the provinces with rent control, leading to increased NOI from the investments.

The reduction in capital spend for the three and nine months ended September 30, 2016, compared to the same periods in 2015 is based on timing of projects.

As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community. Killam expects to invest approximately $2.0 million during 2016 on capital improvements across the MHC portfolio.

Loan Receivable

On July 5, 2016, Killam received full repayment of the $4.0 million loan receivable outstanding. The $4.0 million mezzanine loan was issued in May 2014 to a third-party developer for the construction of a multi-family residential property and earned interest at prime plus 7.0% or a minimum of 10.0%, paid quarterly.

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

Liquidity and Capital Resources

Management ensures there is adequate overall liquidity to fund major property improvements and property maintenance, 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 annual mortgage refinancings; (iii) mortgage debt secured by investment properties; (iv) secured revolving demand credit facilities with two Canadian chartered banks; and (v) equity and debt issuances.

For the nine months ended September 30, 2016, Killam's AFFO payout ratio was 77%, a significant improvement from 88% for the same period in 2015. Killam's Board does not set a specific AFFO payout target, but believes a long-term annual AFFO payout ratio below 90% is important. Future earnings growth is expected to lower the payout ratio.

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

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

(ii) Killam has a $30 million revolving demand credit facility to be used for Killam's acquisition and development program, as well as general business purposes. There is currently no balance drawn on the credit facility.

(iii) Killam's available credit facilities and cash on hand provide Killam with approximately $45 million of capital for future acquisitions and developments. Based on 60% mortgage debt on acquisitions, the capital is expected to support future acquisitions of approximately $100 million.

(iv) A combination of the retained portion of its annual FFO, mortgage refinancings, and the available borrowing capacity of its revolving demand credit facilities are expected to be sufficient to fund ongoing property capital investments, principal repayments and developments;

(v) Killam is well-positioned to meet its mortgage renewals and refinancing goals for 2016 and 2017 due to the continued availability of CMHC insured financing. Management does not anticipate any material difficulties in completing the renewal of the remaining mortgages maturing during 2016 and 2017 of approximately $36.4 million and $71.0 million, respectively, which have effective interest rates of approximately 3.79% and 3.69%.

(vi) On July 4, 2016, Killam completed the redemption of it $57.5 million, 5.65% convertible debentures. Killam has $46.0 million of convertible debentures, which remain outstanding and mature on June 30, 2018.

Killam is in compliance with all financial covenants contained in the DOT and 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.

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at,	**September 30, 2016**	December 31, 2015	Change
Weighted average years to debt maturity	**4.2**	4.2	—
Gross mortgage, loan and vendor debt as a percentage of total assets	**50.9%**	50.4%	50 bps
Total debt as a percentage of total assets	**53.2%**	56.5%	(330) bps
Interest coverage - rolling twelve months	**2.81x**	2.34x	47 bps
Debt service coverage - rolling twelve months	**1.52x**	1.35x	17 bps
Weighted average mortgage interest rate	**3.08%**	3.27%	(19) bps
Weighted average interest rate of total debt	**3.18%**	3.60%	(42) bps

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 the vendor financing is secured by a general corporate guarantee.

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

Killam's September 30, 2016, weighted average interest rate on mortgages improved to 3.08% from 3.27% as at December 31, 2015, as a result of refinancing at lower interest rates during the period. This trend is expected to continue over the remainder of 2016 with $37.8 million of mortgage balances maturing. Management expects to refinance these mortgages at lower interest rates than their current weighted average rates of 3.88%.

Total debt as a percentage of total assets has decreased 330 bps to 53.2% from December 31, 2015. Management expects its percentage of debt to total assets to not exceed 65%. This ratio 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 September 30, 2016, would have increased the ratio of debt as a percentage of total assets by 160 bps.

Killam has the option to redeem the remaining $46.0 million convertible debentures at fair value any time after June 30, 2016. Management may redeem the remaining convertible debentures with equity in the future and thereby further reduce Killam's debt levels.

Refinancings

For the nine months ended September 30, 2016, Killam refinanced the following mortgages:

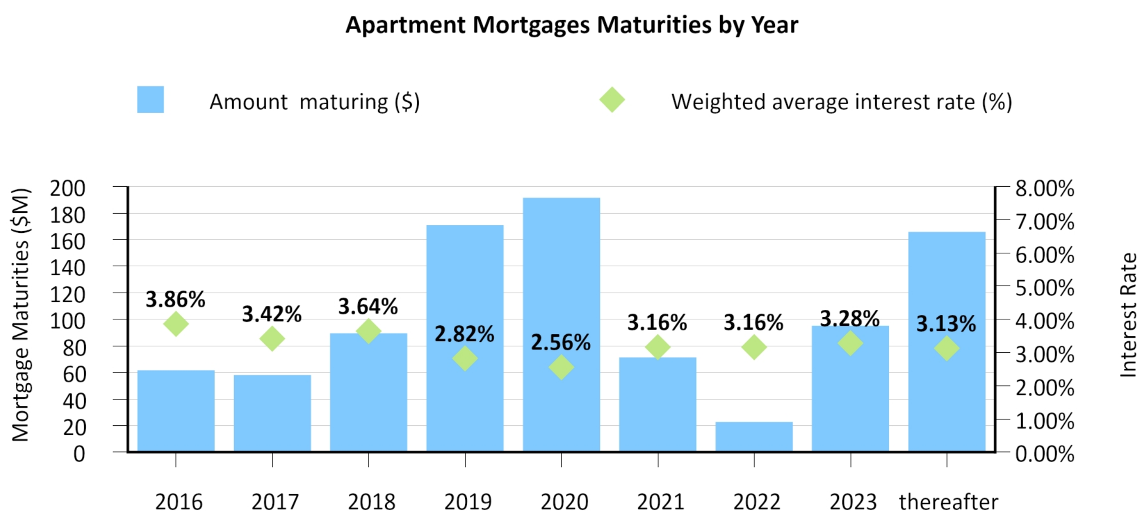
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$80,023	4.36%	$123,691	2.33%	6.3 years	$43,668
MHCs	1,530	5.14%	3,851	3.09%	5.0 years	2,321
	$81,553	4.38%	$127,542	2.35%	6.3 years	$45,989

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

	Apartments			MHC		Total	
Year of Maturity	Balance September 30, 2016	Weighted Avg Int. Rate %	% CMHC Insured	Balance September 30, 2016	Weighted Avg Int. Rate %	Balance September 30, 2016	Weighted Avg Int. Rate %
2016(1)	37,845	3.76%	50.0%	1,385	5.00%	39,230	3.81%
2017	57,375	3.42%	42.9%	15,925	4.66%	73,300	3.69%
2018	88,759	3.64%	40.9%	11,794	4.33%	100,553	3.73%
2019	169,265	2.81%	96.6%	19,063	3.85%	188,328	2.92%
2020	189,876	2.56%	57.5%	7,027	3.52%	196,903	2.59%
2021	107,507	2.68%	84.1%	3,786	3.09%	111,293	2.70%
2022	22,485	3.16%	100.0%		—	22,485	3.16%
2023	94,354	3.28%	84.3%	—	—	94,354	3.28%
Thereafter	164,419	3.13%	100.0%	—	—	164,419	3.13%
	$931,885	3.09%	76.1%	$58,980	4.10%	$990,865	3.08%

(1) Excludes $11.2 million related to demand loans classified as current mortgage debt on the September 30, 2016, condensed consolidated interim financial statements.

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



As at September 30, 2016, approximately 76% of Killam's apartment mortgages were CMHC-insured (72% of total mortgages as MHC mortgages are not eligible for CMHC insurance) (December 31, 2015 – 73% and 69%). The weighted average interest rate on the CMHC-insured mortgages was 2.84% as at September 30, 2016 (December 31, 2015 – 3.01%).

Access to mortgage debt is essential in financing future acquisitions and in refinancing maturing debt. Management has intentionally diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered the maturity dates of its mortgages to manage interest rate risk. Management anticipates continued access to mortgage debt for both new acquisitions and refinancings. Access to CMHC-insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee on the debt and therefore are able to lend at more favorable rates.

The following tables present the NOI for properties that are available to Killam to refinance at debt maturity in the remainder of 2016 and in 2017:

Remaining 2016 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	13	$4,522	$36,427
MHCs with debt maturing	2	327	1,374
	15	$4,849	$37,801

2017 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	11	$7,078	$55,806
MHCs with debt maturing	9	2,754	15,150
	20	$9,832	$70,956

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

Future Contractual Debt Obligations

As at September 30, 2016, the timing of Killam's future contractual debt obligations is as follows:

For the twelve months ending September 30,	Mortgage and loans payable	Construction loans	Convertible debentures	Total
2017	$147,314	$8,517	$—	$155,831
2018	122,373	—	46,000	168,373
2019	161,593	—	—	161,593
2020	197,946	—	—	197,946
2021	122,281	—	—	122,281
Thereafter	250,604	—	—	250,604
	$1,002,111	$8,517	$46,000	$1,056,628

Convertible Debentures

On July 4, 2016, Killam completed the redemption of the $57.5 million, 5.65%, convertible unsecured debentures.

Killam's remaining $46.0 million convertible unsecured subordinated debentures mature on June 30, 2018, bear interest at 5.45% and are convertible, at the holders' option, to Trust Units at a price of $14.60. As of September 30, 2016, the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of Trust Units obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the Trust Units for the preceding 20 days (ending five days preceding the fixed date for redemption or maturing).

Construction Loan

As at September 30, 2016, Killam had access to a $10.1 million floating rate non-revolving demand construction loan for the purpose of financing its Southport development project. Payments are made monthly on an interest only basis. The construction loan has an interest rate of prime plus 0.75%. Once construction has been completed and rental targets achieved, the construction loan will be repaid in full and replaced with a conventional mortgage. As at September 30, 2016, $8.5 million (December 31, 2015 - $4.1 million) was drawn at a weighted average interest rate of 3.45% (December 31, 2015 - 3.45%).

Killam expects to access its construction loan for The Alexander starting in Q4-2016.

Credit Facilities

On July 20, 2016, Killam increased its $2.0 million revolving demand facility to $30.0 million. This facility can be used for Killam's acquisition program and general business purposes. The interest rate on this debt is prime plus 75 bps on prime rate advances or 175 bps over banker's acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. Killam currently has assets with a carrying value of $45 million pledged to the line and a balance outstanding of $nil. The agreement includes certain covenants and undertakings with which Killam is in compliance.

Killam also has a $1.5 million revolving demand facility that can be used for Killam's acquisition program and for general business purposes. The interest rate on the debt is prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at September 30, 2016, Killam had assets with a carrying value of $1.8 million pledged as collateral and letters of credit totaling $1.3 million outstanding against the facility (December 31, 2015 - $1.5 million). The agreement includes certain covenants and undertakings, with which Killam is in compliance.

Unitholders' Equity

Unitholders' Equity represents the issued and outstanding Trust Units, including any Units issued in connection with Unit-based incentive plans, as they have claims similar or identical to those of the Trust Units. Unitholders' Equity excludes the Exchangeable Units.

Under the reorganization of the Company to a real estate investment trust, the former shareholders of the Corporation received Trust Units or Exchangeable Units. The interests in Killam Apartment REIT are represented by two classes of units: a class described and designated as "Trust Units", and a class described and designated as "Special Voting Units". The Special Voting Units, are used to provide voting rights to holders of Exchangeable Units that are exchangeable for Trust Units. The Exchangeable Units are classified as a financial liability in accordance with IAS 32, and are discussed in note 2 of the condensed consolidated interim financial statements.

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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the Market Price of the Trust Unit (Market Price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent Closing Market Price (Closing Market Price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the nine months ended September 30, 2016, no Unitholders redeemed units.

PART VII

Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. These are described in detail in the Management's Discussion and Analysis found in Killam's 2015 Annual Report and in Killam's Annual Information Form, both filed on SEDAR. These factors still exist at the end of this quarter and remain relatively unchanged.

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

The condensed consolidated interim financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding Killam's business and financial statement presentation. In particular, Killam's significant accounting policies were presented in note 2 to the audited consolidated financial statements for the year ended December 31, 2015, and any changes in the accounting policies applied have been described in note 2 to the condensed consolidated interim financial statements for the three-and nine-month periods ended September 30, 2016. The opening adjustments recorded on January 1, 2016, related to the REIT conversion are described in note 3 to the condensed consolidated interim financial statements.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions. The significant areas of judgments, estimates and assumptions are set out in note 3 of the consolidated financial statements found in Killam's 2015 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred taxes.

Disclosure Controls, Procedures and Internal Controls

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