2015 Management's Discussion Analysis

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

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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 consolidated financial statements and pertains to known risks and uncertainties. This MD&A should be read in conjunction with material contained in the Company’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 the Company’s 2014 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, knows as Killam Apartment Real Estate Investment Trust (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 their 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 ending December 31, 2015, references Killam Properties Inc. and information provided at January 1, 2016, and later references the 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 February 16, 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 the Company'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 statements, 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 which 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 the Company. Readers are cautioned that such statements may not be appropriate and should not be used for any other purpose.

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PART II

Financial and Operational Highlights

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

For the years ended December 31,

	2015	2014	% Change
Operating Performance[1]			
FFO	**$49,016**	$40,162	22.0%
FFO per share (diluted)	**$0.79**	$0.72	9.7%
AFFO per share (diluted)	**$0.68**	$0.61	11.5%
Weighted average number of shares outstanding (diluted) (000's)	**62,360**	55,664	12.0%
AFFO payout ratio (diluted)	**87.7%**	98.1%	(10.6)%
Portfolio Performance			
Property revenue	**$166,614**	$147,507	13.0%
NOI[1]	**$98,390**	$84,601	16.3%
Same store NOI	**$83,153**	$79,817	4.2%
Same store NOI margin	**58.4%**	57.3%	110 bps
Weighted average same store apartment rental increase	**1.3%**	1.2%	10 bps
Stabilized apartment occupancy	**95.5%**	95.1%	40 bps
Leverage Ratios			
Total debt to total assets[2]	**55.7%**	54.9%	80 bps
Weighted average mortgage interest rate[2]	**3.27%**	3.60%	(33) bps
Weighted average years to debt maturity[2]	**4.2**	4.4	(0.2)years
Debt service coverage[3]	**1.35x**	1.34x	0.7%
Interest coverage[3]	**2.34x**	2.21x	5.9%
Other			
Acquisitions completed[5]	**$53,675**	$160,200	(66.5)%
Developments completed	**$33,900**	$13,900	143.9%
Dividends paid per share	**$0.60**	$0.60	- %
Closing price of common shares[2]	**$10.51**	$10.26	2.4%
Market capitalization[4]	**$660,000**	$620,000	6.5%

(1) Net operating income ("NOI"), funds from operations ("FFO") and adjusted funds from operations ("AFFO") are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see Non-IFRS Financial Measures.)
(2) As at December 31.
(3) Based on the trailing four quarters.
(4) Defined as the closing price of the common shares on the last trading date of the year times the number of common shares outstanding as at December 31.
(5) Purchase price on acquisition does not include transaction-related costs.

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

Summary of 2015 Results and Operations

FFO per Share Growth of 9.7%

Killam generated FFO per share (diluted) of $0.79 in 2015, 9.7% higher than $0.72 generated in 2014. FFO growth was attributable to a 4.2% increase in same store NOI, interest expense savings on refinancings and accretive returns from developments and acquisitions. AFFO also increased in 2015, by 11.5% year-over-year. This robust earnings growth, combined with a stable dividend, is reflected in a significant improvement in Killam's AFFO payout ratio, which was 87.7% in 2015, compared to 98.1% in 2014.

Improved Occupancy, Higher Rents and Lower Energy Costs Led to Strong Same Store NOI Growth

Killam's portfolio of same store properties achieved a 4.2% increase in NOI in 2015, the highest same store growth realized in the last five years, due to a combination of revenue growth and a focus on property expenses. Same store revenue grew by 2.2%, achieved from a 1.3% increase in rental rates, a 40 basis point ("bps") increase in apartment occupancy and a 50 bps reduction in rental incentives. All regions contributed positively to revenue growth with Killam's largest market (by unit count), Halifax, Nova Scotia ("NS") delivering a 2.1% increase in same store property revenue during the year. Same store property operating expenses decreased by 0.4% year-over-year due to water and operating efficiencies, lower natural gas, oil prices, as well as energy. The strong NOI growth is reflected in an improved operating margin in 2015, which increased an impressive 110 bps to 58.4% from 57.3% in 2014.

Lower Interest Rates on Mortgage Refinancings Contributed to FFO per Share Growth

Killam successfully refinanced $91.1 million of maturing mortgages with $135.7 million of new debt at a weighted average interest rate of 2.24%, 227 bps lower than the weighted average interest rate prior to refinancing. These refinancings, combined with lower rates achieved in 2014, contributed to a 6.5% reduction in same store interest expense in the year. Killam's weighted average interest rate decreased to 3.27% at December 31, 2015, from 3.60% at December 31, 2014.

$88 Million in Acquisitions and Developments Added to Killam's Real Estate Portfolio

Killam completed $53.7 million in acquisitions in 2015, including two apartment properties adjacent existing Killam buildings, two commercial properties, which include land for development in Halifax and land for development in Calgary. The acquisition of land increased Killam's development pipeline to over 1,300 units. In addition to acquisitions, Killam completed two developments in 2015, adding $33.9 million of high quality properties (161 units) to its portfolio. Both apartment properties leased up within six months of opening and realized fair value increases upon completion. In addition, Killam invested $14.2 million in two additional developments during 2015.

Shareholder Approval Received for REIT Conversion

Killam received 99.5% support for the plan of arrangement to convert Killam Properties Inc. to Killam Apartment REIT at its shareholder meeting on December 8, 2015. The conversion was completed effective January 1, 2016. The REIT structure is expected to enhance Killam's long-term value by maximizing future cash distributions to investors with maximum tax efficiency.

Performance Compared to 2015 Key Objectives

Same Store NOI Growth	
2015 Target	Same Store NOI growth of 0% to 2% (increased to 2% to 4% in Q2-2015).
2015 Performance	Killam exceeded its NOI target for the year by achieving 4.2% same store NOI growth. Improved NOI was driven by a 2.2% increase in property revenues and a 0.4% decrease in operating expenses.
Portfolio Expansion	
2015 Target	Complete a minimum of $75 million in acquisitions and continue to develop two current development projects on schedule and within 5% of budget.
2015 Performance	Killam completed $53.7 million in acquisitions during 2015, which was $21.3 million shy of the acquisition target. 2015's low cap-rate environment and high cost of capital did not support all acquisition opportunities in the year. Killam's development target was met with the completion of Chelsea Place, a 102-unit development in St. John's, and Saginaw Gardens, a 122-unit development in Cambridge, ON. Both projects were completed on schedule and on budget and were fully leased within six months of opening.
Geographic Diversification	
2015 Target	50% of 2015 acquisitions to be outside Atlantic Canada, with a focus on Ontario and Alberta.
2015 Performance	13.5% of 2015 acquisitions were outside of Atlantic Canada. Meeting the 50% target was challenged by low cap-rates in Ontario and market weakness in Alberta. These factors, combined with a higher cost of capital, resulted in less acquisitions in Ontario as investments did not meet minimum acquisition targets.

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 $1.8 billion in real estate assets. Killam's strategy to maximize its value and long-term profitability includes concentrating on three key areas of growth: 1) increasing the earnings from its existing portfolio, 2) expanding its portfolio and diversifying geographically through accretive acquisitions, with an emphasis on newer properties, and 3) developing 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 in 2014 acquired an ownership interest in its first apartment property in Calgary. Since 2010, Killam has complemented its acquisition program with the construction of apartment buildings and has completed seven projects to date and currently has two additional properties under construction.

The apartment business is Killam's largest business segment, accounting for 89% of the Company's NOI for the year ended December 31, 2015. At December 31, 2015, Killam's apartment portfolio consisted of 13,681 units. Its 176 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") and Calgary, Alberta ("AB"). Killam is Atlantic Canada's largest residential landlord, with a 13.7% 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 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 year ended December 31, 2015. Killam also has a small portfolio of commercial properties which accounted for 2% of the Company's NOI in 2015.

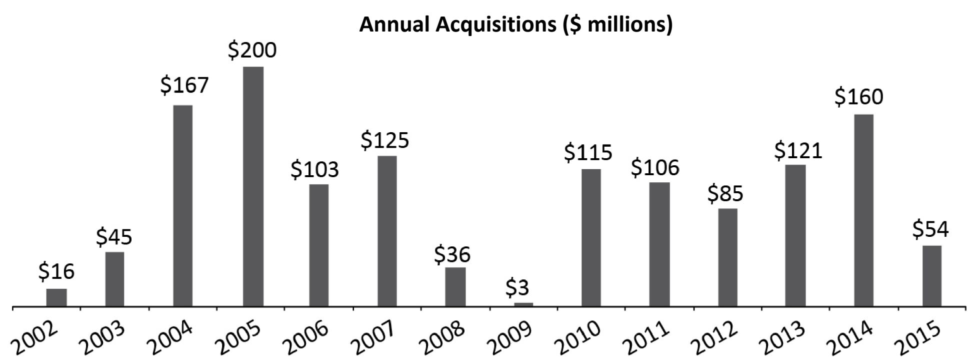
Business Strategy

Maximize NOI from Existing Portfolio

Management increases the value of its real estate portfolio by maximizing revenue and generating operating efficiencies. To achieve NOI growth, Killam must address three critical factors; occupancy, rental rates and operating costs. Killam focuses on customer service, investing in its properties, leasing and marketing initiatives and training its employees to maximize these outcomes.

Growth through Acquisitions

Killam is expanding its portfolio by acquiring centrally located buildings in urban markets and expanding its ownership interest in Ontario and Alberta, as well as adding to its established portfolio in Atlantic Canada. Acquisition activity varies by year depending on accretive opportunities and access to capital.

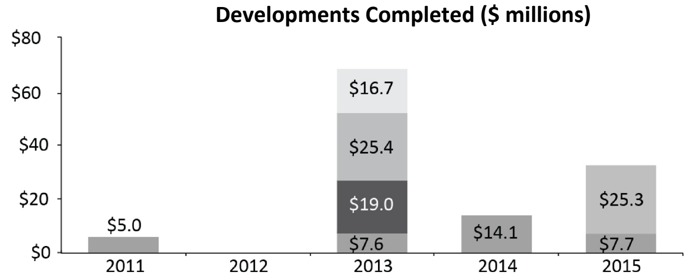


Growth through Development

Killam enhances its external growth opportunities with development. Killam started apartment developments in 2010 and has completed seven projects, including two in 2015. Killam has an experienced development team that oversees all projects. Killam's new property construction emphasis enables Management to directly control the quality and features of its buildings, and generally deliver higher returns than through acquisitions. Management expects to build to a 75-125 bps cap-rate premium over the market value of comparable assets; thereby enhancing shareholder value.

In order to manage the short-term dilution associated with development, and mitigate development risk, Management plans to limit new development to approximately 5% of Killam's balance sheet asset value on an annual basis.

Developments Completed ($ millions)



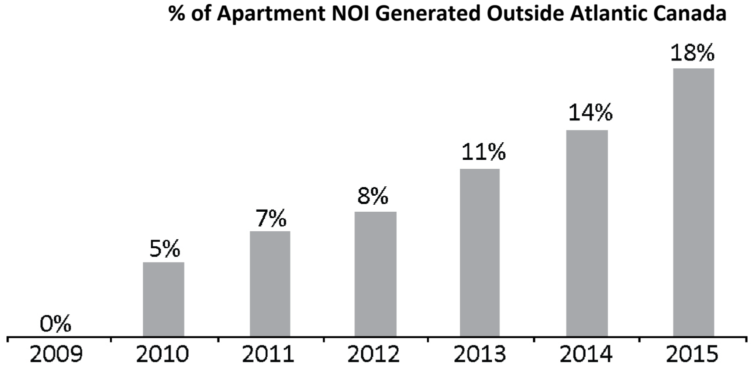
Investment in New Properties

In addition to developing properties, Killam also acquires newly constructed buildings. Management believes that increasing Killam's ownership in new, high-quality buildings will result in above-market and long-term demand for its properties, reduce annual capital requirements related to deferred maintenance, and transform Killam's portfolio over time into one of the highest quality portfolios in Canada. The majority of the new properties added to Killam's portfolio are condominium quality, providing tenants with features and amenities traditionally associated with ownership. Management believes demand for newer rental accommodations will grow given the increasing number of homeowners reaching retirement age and seeking alternatives to home ownership. Killam is also attracted to the low capital spend requirements from new assets compared to older buildings. In addition, with energy efficient features, the NOI margins are typically higher in newer buildings. With strong demand for the acquisition of apartments in recent years, cap-rates have declined and the pricing differential between older and newer buildings has reduced. This enables Killam to increase the amount of newer apartments in its portfolio without paying a significant premium for these higher quality assets.

Geographic Diversification

Geographic diversification is a priority for Killam. Killam's strong operating platform can support a larger and more geographically diverse portfolio. Killam is actively building a portfolio in targeted markets outside of Atlantic Canada, including Ottawa, the Greater Toronto Area, Southwestern Ontario and in Alberta. Increased investment in Ontario and Western Canada will enhance Killam's diversification and exposure to the urban centres in Canada with higher population growth than Atlantic Canada. Management has set a long-term target to grow the NOI generated outside of Atlantic Canada to 50% of overall NOI.

% of Apartment NOI Generated Outside Atlantic Canada



Key Performance Indicators ("KPIs")

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

1) FFO per Share – A standard measure of earnings for real estate entities. Management is focused on growing FFO per share 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 Store NOI Growth – This measure considers the Company's ability to increase the NOI at same store properties, removing the impact of acquisitions, dispositions, developments and other non-same store 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 measures its debt levels as a percentage of total assets and works to ensure that the debt to total assets does not exceed 65%.
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 interest and principal on outstanding debt. Generally, the higher the debt service coverage ratio, the lower the credit risk.

Non-IFRS 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. The Company includes these measures as a means of measuring financial performance.

- FFO are calculated by Killam as net income plus deferred tax expense, depreciation on owner-occupied property, fair value loss, loss on disposition and tax planning costs relating to the Company's conversion to a real estate investment trust ("REIT"), less fair value gain, gain on disposition and non-controlling interest. Killam's definition of FFO is 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 the Company 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 store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2015 and 2014 (90% of the portfolio based on the December 31, 2015 unit count).
- Interest coverage is calculated by dividing the earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense.
- 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 and principal mortgage repayments.

2016 Outlook

NOI Growth from Same Store Properties

Management expects to generate positive same store NOI growth in 2016, realized by a combination of increased rental rates, stable occupancy and modest expense growth. Economic growth in Atlantic Canada, aging demographics and a decline in the number of Atlantic Canadians moving west, given lower oil prices, are all expected to support strong demand for apartment rental in Atlantic Canada and enable reasonable rental growth. Strong fundamentals in Ontario should also contribute to revenue growth. Through the completion of on-going energy and water conservation initiatives, combined with operational efficiencies, Management expects to achieve positive NOI growth of 1% to 3% in 2016 with an emphasis on well located newer properties.

Acquisitions to Expand Geographic Diversification

Management will continue its focus on portfolio expansion and geographic diversification through acquisitions. Management expects a minimum of $50 million in acquisitions in 2016 however, the level of activity will be dependent on both the opportunities available and the strength of the capital markets. Faced with weakness in the capital markets, Management may recycle capital from dispositions to fund accretive acquisitions.

Developments an Important Component of Growth

Based on the relatively low yields available from acquisitions and the higher returns achievable from development, Management is actively developing apartment properties. Targeting a yield on development of 5.5% to 6.0% and an expected cap-rate value on completion of 4.5% to 5.0%, Management expects developments to be accretive and create shareholder value. Development is currently underway for 310 units, with a 70-unit development expected to be completed during Q3-2016. Killam owns development land for approximately 1,350 additional apartment units; 200 of which are based in Ontario and 400 of which are based in Alberta. Management expects to begin construction on at least one additional development in Ontario in 2016. See further discussion on land held for future development in the “Investment Properties” section of the MD&A.

Improving Fundamentals in Atlantic Canada

Large economic projects are driving economic and population growth in urban centres in Atlantic Canada, and most specifically in Halifax. Recent economic forecasts are projecting improved GDP growth in these regions. In its Autumn 2015 Metropolitan Outlook, the Conference Board of Canada identified Halifax as one of the fastest growing economies in Canada for 2016, with 3.0% growth expected. The $25 billion, 25-year shipbuilding contract in Halifax started in September 2015 and is expected to be a substantial contributor to both employment and GDP growth. Large construction projects in Atlantic Canada and increased non-energy exports, including seafood, food and forestry products, are also forecasted to contribute to the region's GDP growth. This improved economic outlook for Atlantic Canada is expected to lead to stronger apartment fundamentals in the region where approximately 80% of Killam’s NOI is generated. An expected increased in immigration in Atlantic Canada should also support stronger demand for rental units.

Interest Savings on Refinancings

Killam has approximately $120 million of apartment mortgages maturing in 2016 with a weighted average interest rate of 4.20%. Based on current bond yields for 5-year and 10-year debt, and an expectation of yields to stay low in the near-term, Management expects to refinance its maturing mortgages at lower interest rates, creating interest expense savings. Management expects to upfinance $45 - $50 million from maturing mortgages using a combination of 5-year and 10-year debt in 2016. Assuming an average interest rate of 2.4% on refinancings, Killam could generate annualized interest savings of up to $1.0 million.

Reduced Natural Gas Volatility in Atlantic Canada

Having absorbed significant increases in natural gas prices in Atlantic Canada during 2013 and 2014, Killam experienced more stable pricing in 2015. Killam’s natural gas costs are expected to remain relatively flat in the near-term. In addition, ongoing investments in energy efficiencies will reduce natural gas consumption, ideally providing opportunities for savings.

Looking out longer-term, projects are underway to alleviate the capacity constraints that have led to increased volatility in natural gas costs in the Northeastern US and New Brunswick and Nova Scotia, including pipeline capacity and expansion projects in New England. Spectra Energy has proposed three pipeline projects, which are expected to lead to more stable and affordable gas prices in the future. These projects include the Algonquin Incremental Market ("AIM") Project, the Atlantic Bridge Project and Access Northeast. All three projects are projected to be completed by 2018. In Nova Scotia, AltaGas has received government approval to build a natural gas storage facility. Drilling of three natural gas storage wells located 60 kilometers from Halifax began in August 2014 and may be ready for gas storage in 2018 or 2019. Timing for the completion of these projects varies from Q4-2016 to 2019, but may result in more moderate pricing starting as early as 2016 with increasing supply available at peak times.

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 and for the year ended December 31, 2015:

APARTMENT PORTFOLIO				
	Units[(1)]	Number of Properties	NOI[(2)] ($)	NOI[(2)] (% of Total)
Nova Scotia				
Halifax[(3)]	5,090	58	$35,437	36.0%
Sydney	139	2	$1,158	1.2%
	5,229	60	$36,595	37.2%
New Brunswick				
Moncton	1,629	31	$8,037	8.2%
Fredericton	1,394	20	$8,132	8.3%
Saint John	1,202	14	$4,651	4.7%
Miramichi	96	1	$546	0.6%
	4,321	66	$21,366	21.8%
Ontario[(4)]				
Ottawa	780	9	$4,199	4.3%
London	264	2	$3,468	3.5%
Toronto	378	2	$3,160	3.2%
Cambridge	347	3	$2,988	3.0%
	1,769	16	$13,815	14.0%
Newfoundland & Labrador				
St. John's	915	12	$6,979	7.1%
Grand Falls	148	2	$786	0.8%
	1,063	14	$7,765	7.9%
Prince Edward Island				
Charlottetown	906	17	$5,721	5.8%
Summerside	86	2	$437	0.4%
	992	19	$6,158	6.2%
Alberta[(4)]				
Calgary	307	1	$2,183	2.2%
Total Apartments	**13,681**	**176**	**$87,882**	**89.3%**
MANUFACTURED HOME COMMUNITY PORTFOLIO				
	Sites	Number of Communities	NOI[(2)] ($)	NOI[(2)] (% of Total)
Nova Scotia	2,626	16	$4,403	4.5%
Ontario	2,145	16	$3,995	4.0%
New Brunswick	224	1	$183	0.2%
Newfoundland & Labrador	170	2	$303	0.3%
Total MHCs	**5,165**	**35**	**$8,884**	**9.0%**
COMMERCIAL PORTFOLIO				
	Square Footage	Number of Properties	NOI[(2)] ($)	NOI[(2)] (% of Total)
Halifax, Nova Scotia	248,000	4	$1,624	1.7%
Total Portfolio			**$98,390**	**100%**

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

(2) For the year ended December 31, 2015.

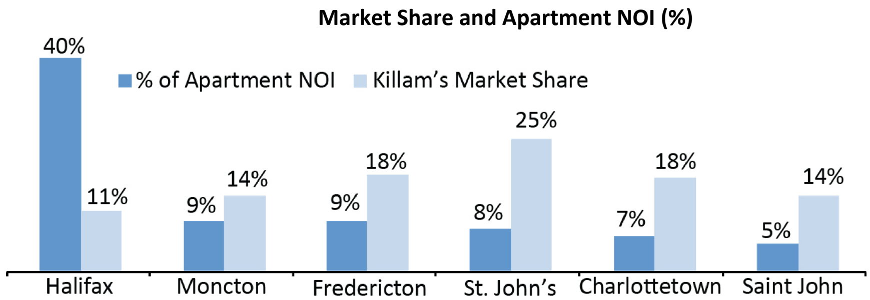
(3) Killam owns a 49% interest in, and manages, Garden Park Apartments, a 246-unit building located in Halifax, NS. Killam's 49% ownership interest represents 120 of the 246 units related to this property.

(4) Killam owns and manages three buildings located in Ontario and one building in Alberta through a joint arrangement, with Killam having a 50% ownership interest in all four properties. Killam's ownership interest represents 402 of the 804 units related to these properties.

Unique Portfolio Features

Atlantic Canada's Market Leader

Killam is the dominant residential landlord in Atlantic Canada with a 13.7% market share. A large portfolio in each core market provides advantages, including brand recognition, a diverse selection of apartments in each city, higher operating margins from economies of scale and the ability to attract and retain top talent. With improving rental fundamentals in Atlantic Canada, five of Killam's six core markets experienced improved occupancy in October 2015 vs. October 2014, as disclosed in CMHC's Fall 2015 Rental Market Report. This compares favourably with the overall decline in occupancy for Canada as reported by CMHC, at 96.5% occupancy in October 2015 compared to 97.0% in October 2014.



Urbanization Leading to Population Growth in Killam's Core Markets

The urbanization trend is strong across Atlantic Canada, driving population growth in the region's cities and demand for rental housing. Atlantic Canada is home to 2.4 million people, approximately 43% of whom live in the six largest cities, representing Killam's core markets in the region. The net change in population in four of Killam's core markets in Atlantic Canada is reported annually by Statistics Canada. In the past decade, there has been population growth in each of Halifax, St. John's and Moncton, with a large part of the growth related to people moving to the cities from rural areas. Immigration has also contributed to population growth in the urban centres. The population of Saint John, NB, has decreased slightly in recent years due to a decline in economic activity following the completion of several large energy projects that were underway during the 2000s.

A Diversified Portfolio of Apartment Properties

Killam's apartment portfolio includes a variety of property types, including high-rise (34%), mid-rise with elevators (34%), walk-ups (30%) and a small number of townhouses (2%). The portfolio includes rents ranging from affordable to high-end Class A properties. The average rent for Killam's apartment units at the end of 2015 was $966. The average age of Killam's apartment portfolio is 28 years. With a focus on both developing and acquiring newer properties, 33% of Killam's apartment NOI is from apartments built after 2000. A high percentage of newer assets should result in lower capital and maintenance costs for the foreseeable future, well below the industry average.

MHCs Compliment Killam's Apartment Portfolio

With MHCs, Killam owns the land and infrastructure supporting each community and leases the sites to the tenants, who own their own homes and pay Killam a monthly site rent. In addition to site rent, the tenant may have a mortgage payment to a financial institution for their home. The average site rent in Killam's MHC portfolio is $236 per month, which offers value and affordability to tenants. The homeowner is responsible for property taxes based on the assessed value of their home and Killam is responsible for the property tax on the land. MHCs require less recurring capital investment and deliver a more predictable and stable cash flow than apartments. MHC home owners are responsible for the repair, maintenance and operating costs of their homes, which removes significant variable costs that are typically borne by Killam for apartments. The operating profit margin in Killam's MHC business averaged 62.2% over the last two years, compared to 58.0% for apartments.

Killam's MHCs enjoy a stable tenant base, with consistently strong occupancy of approximately 98%. Should a tenant choose to leave a community, they sell their home, with the home typically remaining on the site and rent collection continuing uninterrupted from the new homeowner, who Killam approves as part of the sale process.

Limited Exposure to Rent Control

The majority of Killam's portfolio is not impacted by rent control, allowing Killam to move rents to market on an annual basis. PEI is the only province in Atlantic Canada with rent control for apartments, and this represents only 7.3% of Killam's apartment units. Ontario has rent control; however the legislation excludes properties built after 1991. Eight of Killam's sixteen properties in Ontario (1,068 of 1,769 units) are newer properties (built after 2004) and therefore do not fall under the rent control guideline. The balance of Killam's Ontario properties can move rents to market on a unit-by-unit basis as they become vacant. Ontario and Nova Scotia both have rent control for MHCs. In both provinces owners may apply for above-guideline increases to offset significant capital expenditures. Higher rent increases are also allowed for new tenants entering the communities. To determine rental increases for its portfolio, Killam analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to increase rents for both existing tenants and on turnovers.

CMHC Insured Debt Available for over 90% of Killam's Portfolio

Canadian apartment owners can apply for CMHC mortgage loan insurance. The mortgage insurance guarantees the repayment of the loan to the lender, eliminating default risk, which results in lower interest rates for the borrower than with conventional mortgages. Killam uses CMHC insurance and has 73% of its apartments financed with CMHC insured debt. As mortgages are renewed or new properties are financed, Killam expects to use CMHC insurance and increase the percentage of insured debt. CMHC insurance is not available for the owners of MHCs, however, it is available for the individual manufactured home owners.

Focused on Service

Killam takes pride in providing tenants with well-maintained properties, being responsive to service requests and providing an attractive value proposition for tenants' housing needs. In-house educational programs enhance employees' skills and experience to best service tenants and prospective tenants. Annually, Management measures tenants' satisfaction through an on-line survey (approximately 1,800 respondents in 2015). Killam's 2015 survey results support Killam's focus on service with a 90% tenant satisfaction rating, the same rating received in 2014.

Geographic Diversification

Killam is focused on increasing its geographic diversification by acquiring and developing more properties in its core markets in Ontario and Alberta. In 2015, Killam's apartment portfolio included 1,769 apartment units in Ontario, up from 225 units in 2010 when Killam entered the Ontario apartment market, and includes properties in Ottawa, Toronto, London and Cambridge. In addition to apartments, 42% of Killam's MHC sites are located in Ontario. Killam acquired its first apartment property in Alberta in 2014, a 50% interest in a 307-unit building in downtown Calgary.

Core Market Update

Halifax
36% of Killam's 2015 NOI was earned in Halifax. The city's rental unit base is 44,423 units accounting for 45.7% of the total rental universe in Atlantic Canada as measured by CMHC.

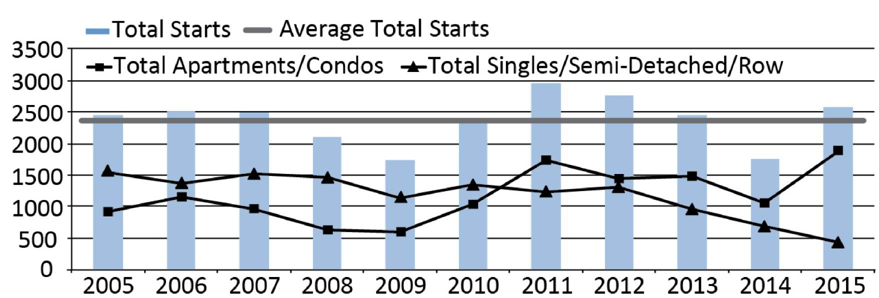
Halifax is the largest city in the region and home to 17% of Atlantic Canadians. It is the region's economic hub, producing 56% of Nova Scotia's total GDP and home to 44% of the province's population. The city attracts a diverse population base, both from rural areas of Nova Scotia, other regions in 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 retail and wholesale trade, health care, public administration and education 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 demographic shifting away from home ownership into apartment living. These drivers are absorbing new rental supply 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 or more, and monthly rents of $1,300 and higher.

The following graph summarizes the total amount of starts in Halifax for all housing types from 2006 to 2015, as reported by CMHC. During the last ten years, the annual total housing starts averaged 2,373 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.

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 reported Halifax's vacancy to be 3.4% in October 2015, down from 3.8% in October 2014.

Management expects population growth in Halifax to increase due to large-scale projects taking place in the region that should drive employment opportunities in the city. Irving Shipyard's $25 billion, 25-year shipbuilding contract started in September 2015 and is expected to 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, are also expected to contribute the Halifax's economic growth.

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

New Brunswick

21.8% 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 and Moncton both experienced high population growth, posting 9.3% and 8.7% growth, respectively, over the 2006 and 2011 Census period. 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. Recent population growth in Moncton has been driven by urbanization from French communities in Northern New Brunswick. The Saint John market, representing 4.7% 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 strong 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 now are coming down. Year-to-date, the province has seen less new rental product being introduced into the market. CMHC reports that during 2014 and 2015 there were 540 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.

CMHC reported higher occupancy in all three cities in New Brunswick in its Fall 2015 Rental Market Report. In comparing Killam's October 31, 2015, unit occupancy to CMHC's October vacancy statistics, Killam consistently has higher occupancy than CMHC in all three cities (Moncton - up 120 bps, Fredericton - up 30 bps and Saint John - up 50 bps).

Newfoundland

Killam has increased its investment in St. John's, NL in recent years with the development of two new apartment buildings, increasing its ownership interest to 25% market share of the city's rental units. St. John's has undergone a transformation over the last ten years following significant offshore investments, resulting in a population growth and decreased home affordability. These factors, combined with an aging population transitioning out of home ownership, have contributed to strong demand for rental units in St. John's and attractive rental rate growth. Despite weakness in oil prices in 2015, Killam generated strong occupancy levels and increased rental growth in the city.

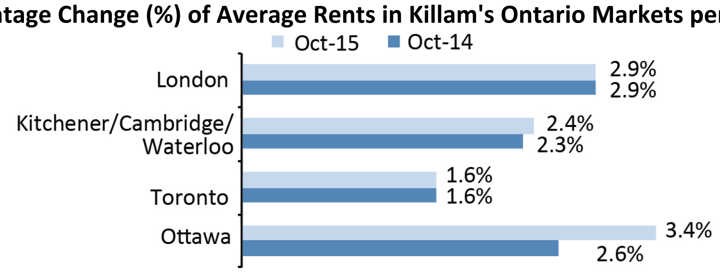
Prince Edward Island

Killam has a 19% market share in Charlottetown, the capital and economic center of Prince Edward Island. The Charlottetown market represents 5.8% of Killam's total NOI. The Prince Edward Island economy continues to realize GDP growth following increases in merchandise exports since 2013. Immigration is also strong in PEI, contributing to demand for rental units.

Ontario

The Ontario rental market is stable, with CMHC reporting only a 10 bps increase in vacancy in the province in October 2015 vs. October 2014; CMHC reported 2.4% vacancy for Ontario in its Fall 2015 Rental Market Report. Vacancy rates were flat in Toronto and London, increased by 10 bps in the Cambridge area and by 80 bps in Ottawa, as noted in the graph below. The uptick in Ottawa reflects a recent increase in supply in the market. Despite the increase in vacancy in the city, Ottawa experienced an average increase in rental rates of 2.6% in the year. CMHC reported a 3.0% increase in average rent in 2015 for the total Ontario rental market, up from 2.1% a year earlier.

Percentage Change (%) of Average Rents in Killam's Ontario Markets per CMHC



Alberta

The Alberta rental market has softened with the drop in oil prices. Killam's investment in Alberta is limited to Calgary, with a 50% interest in both an apartment building and land for development, CMHC reported a vacancy rate of 5.3% in October 2015 in Calgary, up from 1.4% a year earlier. Killam also experienced increased vacancy in downtown Calgary throughout 2015. With increased marketing and leasing initiatives Killam has stabilized the vacancy in its Calgary building and is making gains absorbing the remaining vacancy.

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

PART III

2015 Financial Overview

Consolidated Results

For the years ended December 31,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$166,614**	$147,506	13.0%	**$142,425**	$139,303	2.2%	**$24,189**	$8,203	194.9%
Property expenses									
Operating expenses	**(27,590)**	(24,774)	11.4%	**(23,745)**	(23,497)	1.1%	**(3,845)**	(1,277)	201.1%
Utility and fuel expenses	**(21,299)**	(20,907)	1.9%	**(19,527)**	(20,244)	(3.5)%	**(1,772)**	(663)	167.3%
Property taxes	**(19,335)**	(17,226)	12.2%	**(16,000)**	(15,745)	1.6%	**(3,335)**	(1,481)	125.2%
	(68,224)	(62,907)	8.5%	**(59,272)**	(59,486)	(0.4)%	**(8,952)**	(3,421)	161.7%
NOI	**$98,390**	$84,599	16.3%	**$83,153**	$79,817	4.2%	**$15,237**	$4,782	218.6%
Operating margin	**59.1%**	57.4%	170 bps	**58.4%**	57.3%	110 bps	**63.0%**	58.3%	470 bps

Total property revenue for the year ended December 31, 2015, was $166.6 million, a 13.0% increase in revenue over 2014. Property revenue for the year ended December 31, 2014, excludes the 25% ownership interest in three properties that were previously held through a joint venture as the associated earnings were recorded as equity income. Including the revenues associated with the three properties in 2014, year-over-year revenues would have increased by 11.5%. The growth was generated through revenue from acquisitions, completed developments and a 2.2% increase in same store revenue.

Killam's total property expenses increased 8.5% in 2015 compared to 2014. Killam's operating margin increased by 170 bps year-over-year. The improved operating margin is attributable to recently completed developments and newly acquired assets outside of Atlantic Canada that have lower property operating expenses. Killam also benefited from lower overall utility costs in 2015 as a result of declining oil prices and moderate natural gas pricing.

Same store property NOI reflects 190 stabilized properties that Killam has owned for equivalent periods in 2015 and 2014. The same store analysis includes a combined total of 17,046 apartment units and MHC sites, or 90% of Killam's portfolio. Same store properties realized net revenue growth of 2.2% for the year ended December 31, 2015. Savings were realized in utility and fuel expenses, resulting in a 0.4% savings in total operating expenses in comparison to the year ended December 31, 2014. Combining strong net revenue growth and savings in property expenses for the year ended December 31, 2015, same store NOI grew by 4.2%. These variances are discussed in more detail in the Apartment and MHC sections of the MD&A.

Non-same store property NOI consists of properties acquired in 2014 and 2015, development projects completed in 2014 and 2015, other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items. Details of properties acquired in 2015 are found on page 26.

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

Apartment Results

For the years ended December 31,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$148,846**	$132,950	12.0%	**$128,102**	$125,517	2.1%	**$20,744**	$7,433	179.1%
Property expenses									
Operating expenses	**(23,303)**	(21,333)	9.2%	**(20,360)**	(20,247)	0.6%	**(2,943)**	(1,086)	171.0%
Utility and fuel expenses	**(19,490)**	(19,430)	0.3%	**(18,059)**	(18,805)	(4.0)%	**(1,431)**	(625)	129.0%
Property taxes	**(18,171)**	(16,531)	9.9%	**(15,414)**	(15,179)	1.5%	**(2,757)**	(1,352)	103.9%
Total property expenses	**(60,964)**	(57,294)	6.4%	**(53,833)**	(54,231)	(0.7)%	**(7,131)**	(3,063)	132.8%
NOI	**$87,882**	$75,656	16.2%	**$74,269**	$71,286	4.2%	**$13,613**	$4,370	211.5%
Operating margin	**59.0%**	56.9%	210 bps	**58.0%**	56.8%	120 bps	**65.6%**	58.8%	680 bps

Apartment Revenue

Total apartment revenue for the year ended December 31, 2015, was $148.8 million, a 12.0% increase in revenue over 2014. This growth was attributable to acquisitions and completed developments, growth in rental rates, decrease in rental incentives and increased occupancy.

Same store apartment property revenue increased 2.1% in 2015, due to a 1.3% increase in rental rates and a 40 bps improvement in occupancy for the year. Also contributing to the strong revenue growth was a 50 bps decline in rental incentives as a percentage of residential rent, to 0.7% for 2015 compared to 1.2% for 2014.

Based on current rents, an annualized 100 bps change in the apartment vacancy rate would impact the annualized rental revenue by $1.5 million.

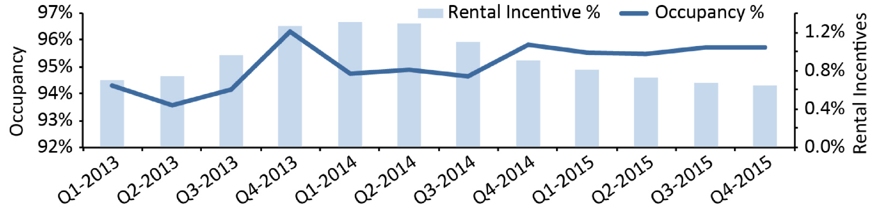
Apartment Occupancy(1) Analysis by Core Market

		Occupancy (% of Residential Rent)(2)			Occupancy (% of units)		
	# of Units	**2015**	2014	Change (bps)	**Dec 31, 2015**	Dec 31, 2014	Change (bps)
Halifax, NS	5,090	**95.3%**	94.6%	70 bps	**96.2%**	96.2%	- bps
Moncton, NB	1,629	**94.7%**	93.4%	130 bps	**96.2%**	95.9%	30 bps
Fredericton, NB	1,394	**94.4%**	94.9%	(50) bps	**95.5%**	96.6%	(110) bps
Saint John, NB	1,202	**94.2%**	94.7%	(50) bps	**96.0%**	94.6%	140 bps
St. John's, NL	915	**96.5%**	96.1%	40 bps	**97.1%**	97.3%	(20) bps
Charlottetown, PE	906	**97.7%**	96.9%	80 bps	**98.8%**	97.5%	130 bps
Ontario	1,769	**97.2%**	97.0%	20 bps	**97.8%**	97.2%	60 bps
Alberta	307	**89.7%**	97.4%	(770) bps	**80.8%**	98.4%	(1,760) bps
Other Atlantic	469	**97.6%**	95.2%	240 bps	**97.4%**	96.6%	80 bps
Total Apartments (weighted average)	13,681	**95.5%**	95.1%	40 bps	**96.2%**	96.4%	(20) bps

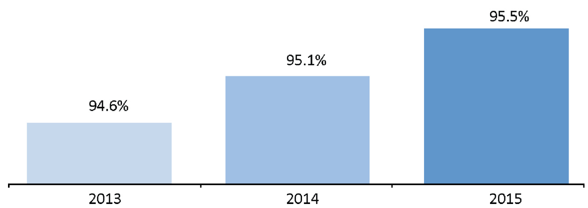
(1) Includes all stabilized properties.
(2) Occupancy as a percentage of residential rent is calculated based on vacancy (in dollars) divided by gross potential residential rent (in dollars) of total stabilized units for the year.

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

Killam's Apartment Occupancy & Rental Incentives (as a % of Residential Rent)



Killam's Stabilized Apartment Occupancy (as a % of Residential Rent)



Average Rent Analysis by Core Market

As at December 31,

	# of Units	Average Rent 2015	Average Rent 2014	Average Rent % Change	Same Store Average Rent 2015	Same Store Average Rent 2014	Same Store Average Rent % Change
Halifax, NS	5,090	**$963**	$948	1.6%	**$937**	$921	1.7%
Moncton, NB	1,629	**$830**	$832	(0.2)%	**$820**	$822	(0.2)%
Fredericton, NB	1,394	**$898**	$896	0.2%	**$858**	$854	0.5%
Saint John, NB	1,202	**$778**	$748	4.0%	**$757**	$749	1.1%
St. John's, NL	915	**$941**	$913	3.1%	**$892**	$875	1.9%
Charlottetown, PE	906	**$899**	$885	1.6%	**$899**	$886	1.5%
Ontario	1,769	**$1,300**	$1,266	2.7%	**$1,178**	$1,151	2.3%
Alberta	307	**$1,354**	$1,359	(0.4)%	**$-**	-	N/A
Other Atlantic	469	**$833**	$819	1.7%	**$833**	$819	1.7%
Total Apartments (weighted average)	13,681	**$966**	$949	1.8%	**$904**	$892	1.3%

As shown in the above table, the weighted average monthly rent for Killam's apartment portfolio was $966 at December 31, 2015, up 1.8% from $949 at December 31, 2014. This increase includes the impact of higher rental rates associated with recently completed developments and acquisitions. Killam's same store apartment portfolio realized a 1.3% increase in average rents year-over-year.

Apartment Expenses

Total apartment expenses for the year ended December 31, 2015, were $61.0 million, a 6.4% increase over 2014. The expense increase is attributable to acquisitions and completed developments. Despite the costs associated with the addition of new properties, Killam realized a 210 bps improvement in its apartment operating margin for the year as a result of moderating fuel costs and the development and acquisition of newer and more efficient buildings.

Total same store property expense for the year ended December 31, 2015, was $53.8 million, a 0.7% decrease over 2014. This decrease is attributable to the ability to maintain and minimize total property operating costs, lower oil and natural gas costs compared to 2014, improved operating efficiencies and only a modest increase in overall property tax costs.

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

Utility and Fuel Expense - Same Store

For the years ended December 31,

	2015	2014	% Change
Natural gas	**$7,026**	$7,791	(9.8)%
Electricity	**6,498**	6,510	(0.2)%
Water	**4,499**	4,460	0.9%
Other	**36**	44	(18.2)%
Total utility and fuel expenses	**$18,059**	$18,805	(4.0)%

Utility and fuel expenses accounted for approximately 34% of Killam's total apartment same store operating expenses in 2015. 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 store natural gas costs decreased by 9.8% compared to 2014. The decrease was primarily attributable to lower commodity charges in NB and Ontario. Killam's weighted average natural gas cost per gigajoule ("GJ") was down approximately 18% in New Brunswick in 2015 due to less volatile pricing in the winter months as experienced during 2014. The weighted average cost in Ontario was down approximately 4.7%. The weighted average cost of gas per GJ was flat in Nova Scotia in 2015. The flat cost in Nova Scotia was attributable to the province's gas distributor's fixed-rate contracts, which were locked-in at above market rates in 2015.

Heating oil costs decreased by 20% in 2015 compared to the prior year due to the significant and sustained decline in world oil prices. Given the lower pricing Killam was able to switch back to oil from natural gas at its buildings with dual burner capabilities. Oil savings are expected to continue as the price per litre of heating oil is trending lower in the first quarter of 2016 compared to 2015, the Company's highest period of heating fuel consumption during the year.

Electricity costs for Killam's same store properties were down 0.2% in 2015 compared to 2014. The decrease in costs in 2015 is attributable to a reduction in the inclusion of unit electricity as a rental incentive in the Saint John market. Killam prefers not to include electricity in rental rates and rents are typically increased to offset this additional expense; however, tenants are attracted to fixing the cost of electricity in their monthly rental payment.

During 2015 Killam also completed lighting retrofits in partnership with Efficiency Nova Scotia installing over 20,000 LED light bulbs in the Company's Halifax area apartments resulting in a reduction in electricity costs for tenants as well as Killam's common areas. These savings more than offset the annual increase in electricity costs in the region during the year.

Water expense for same store properties increased 0.9% year-over-year. Increases in water rates across the various regions were partially offset by the Company's various water consumption initiatives including the installation of low-flow toilets and showerheads.

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

Apartment Same Store NOI by Region

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Halifax	**$53,276**	$52,181	2.1%	**$(21,044)**	$(20,894)	0.7%	**$32,234**	$31,287	3.0%
Moncton	**15,130**	14,907	1.5%	**(7,622)**	(7,656)	(0.4)%	**7,508**	7,251	3.5%
Fredericton	**13,037**	12,806	1.8%	**(5,888)**	(6,082)	(3.2)%	**7,149**	6,724	6.3%
Ontario	**13,649**	13,454	1.4%	**(5,282)**	(5,162)	2.3%	**8,367**	8,292	0.9%
St. John's	**8,563**	8,357	2.5%	**(2,613)**	(2,614)	-%	**5,950**	5,743	3.6%
Saint John	**10,039**	9,915	1.3%	**(5,639)**	(5,920)	(4.7)%	**4,400**	3,995	10.1%
Charlottetown	**9,509**	9,276	2.5%	**(3,784)**	(3,962)	(4.5)%	**5,725**	5,314	7.7%
Other Atlantic locations	**4,899**	4,621	6.0%	**(1,963)**	(1,941)	1.1%	**2,936**	2,680	9.6%
	$128,102	$125,517	2.1%	**$(53,835)**	$(54,231)	(0.7)%	**$74,269**	$71,286	4.2%

As noted above, Killam generated positive NOI growth in all its core markets in 2015 ranging from 0.9% in Ontario to 10.1% growth in Saint John. Overall occupancy gains, rental rate increases, fewer rental incentive offerings, lower natural gas and oil costs and operational efficiencies contributed to the NOI growth.

Halifax

Halifax is Killam's most important rental market, representing 40% of apartment NOI during 2015. Overall, the Halifax same store apartment portfolio achieved 2.1% revenue growth in the year. Occupancy, as measured as the percentage of gross rental revenue achievable, was up 70 bps with the Halifax apartment portfolio achieving 95.3% occupancy in 2015, compared to 94.6% over 2014. At December 31, 2015, Killam's Halifax portfolio was 96.2% occupied on a unit count basis, the same level of occupancy as at December 31, 2014. Average rent for the Halifax same store portfolio was up 1.7% in 2015, from 2014.

Total operating expenses increased by 0.7% in 2015. Savings from lower oil prices, reduced energy consumption resulting from various energy efficiency projects and lower costs on renegotiated garbage contracts offset the majority of increases in property tax expense and contract services in the year. Specifically, higher property tax assessments in Halifax increased property tax costs by 3.7% and snow removal costs increased 22% in the harsher winter of 2015 compared to 2014. Overall, Halifax achieved 3.0% NOI growth in 2015.

New Brunswick

Killam's three core markets in NB generated 24% of the Company's apartment NOI in 2015, and in aggregate achieved 1.5% revenue growth during the year. Fredericton achieved the strongest revenue growth of the NB cities, up 1.8%, attributable primarily to the reduction of rental incentives while still achieving an increase in average rents. Moncton achieved revenue growth of 1.5%, attributable to occupancy gains and a reduction in rental incentives. Saint John achieved 1.3% top line growth due to higher rents and a decrease in rental incentives.

The New Brunswick portfolio realized a 2.8% savings in total operating expenses during 2015. The most significant savings were from utilities, down 7.1% year-over-year, due primarily to lower natural gas pricing in New Brunswick in 2015 compared to 2014. A reduction in water consumption also contributed to savings following the installation of low-flow toilets during the year. In addition, Killam realized a 1.5% decrease in property tax expense following successful tax assessment appeals in Fredericton and Saint John. These savings, along with operational efficiencies, more than offset increases in other operating costs, including higher snow removal expense in the year. Overall, NOI from Killam's New Brunswick portfolio increased by 6.0%, including growth of 10.1% in Saint John, 6.3% in Fredericton and 3.5% in Moncton.

Ontario

Killam's Ontario portfolio generated 16% of Killam's apartment NOI in 2015, up from 13% in 2014. The same store Ontario portfolio achieved 1.4% revenue growth in 2015, realized from increased rents and improved occupancy. The Ontario portfolio achieved 97.2% occupancy in 2015 compared to 97.0% occupancy in 2014 and average rents in Ontario increased by 2.3% year-over-year. Same store revenue growth was impacted by a reduction in parking revenue at one of Killam's properties with the expiry of a rental guarantee in June 2015. Excluding the decline in parking revenue, total same store revenue increased by 2.1%.

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

Total operating expenses increased by 2.3% for the year ended December 31, 2015. A 4.1% increase in property taxes, a 18% increase in water costs and a 6% increase in hydro costs were the biggest drivers of expense growth in the year. Other operating expenses realized only modest increases year-over-year. Overall, Killam's Ontario portfolio realized a 0.9% increase in NOI in 2015.

Newfoundland

Killam's St. John's portfolio generated 8% of Killam's apartment NOI in 2015. The portfolio achieved a 40 bps improvement in occupancy in 2015 compared to 2014, as well as a 1.9% increase in rental rates. Same store revenue for the St. John's portfolio increased by 2.4% in 2015.

Total same store property operating expenses were comparable overall to 2014 as higher property taxes, up 3.6%, were offset by renegotiated garbage contracts and more efficient spending related to repairs and maintenance. Overall, St. John's same store portfolio achieved a 3.6% increase in NOI in 2015.

Prince Edward Island

Killam's Charlottetown portfolio represents 7% of the apartment NOI. Charlottetown achieved 2.5% revenue growth in 2015 due to increased rents, up 1.5%, and improved occupancy levels. The portfolio achieved 97.7% occupancy during 2015, up 80 bps from 96.9% occupancy in 2014.

Total operating expenses decreased 4.5% in 2015. A 1.0% increase in property tax expense and 2.6% increase in operating expenses, mainly driven by increased snow removal costs, were offset by a 13.8% savings in utility costs. Most of Killam's buildings in Charlottetown use heating oil, the price of which decreased by approximately 30% year-over-year. Overall, Charlottetown recorded 7.7% growth in NOI in 2015.

MHC Results

For the years ended December 31,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$14,323**	$13,980	2.5%	**$14,323**	$13,786	3.9%	**$-**	$194	(100.0)%
Property expenses									
Operating expenses	**(3,385)**	(3,250)	4.2%	**(3,385)**	(3,250)	4.2%	**-**	-	
Utility and fuel expenses	**(1,468)**	(1,439)	2.0%	**(1,468)**	(1,439)	2.0%	**-**	-	-%
Property taxes	**(586)**	(566)	3.5%	**(586)**	(566)	3.5%	**-**	-	-%
Total property expenses	**(5,439)**	(5,255)	3.5%	**(5,439)**	(5,255)	3.5%	**-**	-	
NOI	**$8,884**	$8,725	1.8%	**$8,884**	$8,531	4.1%	**$-**	$194	(100.0)%
Operating margin	**62.0%**	62.4%	(40) bps	**62.0%**	61.9%	10 bps	**-%**	-%	(100.0)%

Killam's MHC business accounted for 9% of NOI from property operations during the year ended December 31, 2015, compared to 10% for 2014. MHC same store property revenue increased $0.3 million or 2.5% in 2015 compared to 2014 due to increased revenue from same store properties. Occupancy remains strong for the Company's MHC business, with 97.6% occupancy for the year, only 10 bps less than the 97.7% achieved in 2014. The non-same store revenue relates to income generated from the sale of land in NS in Q1-2014.

Same store revenue growth, partially offset by increased operating expenses, generated MHC same store NOI growth of 4.1% for the year ended December 31, 2015. Specifically, same store MHC property revenue increased 3.9% for 2015, compared to 2014. This was a result of a 4.0% increase in weighted average rent per site to $236, up from $227 for the year ended December 31, 2014. Total same store property expenses increased 3.5% due to higher water and utility costs, additional snow plowing and hauling costs, along with increased property tax costs.

Killam's seasonal MHCs contribute to the MHC's NOI during the second and third quarters of the year. Increased focus on seasonal campsite rentals and other complement revenue streams resulted in increased revenues and NOI growth in the seasonal parks of 14.0% year-over-year.

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

Commercial Results

In 2015 Killam acquired two commercial properties located in Halifax; the Brewery Market and the Medical Arts building. The Brewery Market property contains 158,000 square feet of retail and office space, and a parcel of adjacent land for a 282-unit apartment development. The Medical Arts building contains 18,000 square feet of office space and the Company plans to redevelop the property in the future. Along with the 50% ownership of two commercial properties on Kempt Road in Halifax, this commercial portfolio accounted for $1.6 million or 1.7% of Killam's total NOI for 2015 with an overall occupancy at 98.1%. As well, included in the Apartment segment is an additional 118,000 square feet of commercial space in various residential properties across the portfolio.

PART IV

Other Income

Equity Income

For the years ended December 31,

	2015	2014	% Change
	$-	$829	(100.0)%

Equity income for the year ended December 31, 2014, represented Killam's 25% interest in the net income of a joint venture that owned three apartment buildings, all located in Ontario. The joint venture was dissolved on December 9, 2014, and Killam purchased the remaining ownership of the assets. Killam subsequently sold 50% of its ownership in two of the properties. These properties are now accounted for as joint operations and accordingly the consolidated statements of financial position and the consolidated of income and comprehensive income include Killam's right to and obligations for the related assets, liabilities, revenue and expenses.

Home Sales

For the years ended December 31,

	2015	2014	% Change
Home sale revenue	**$970**	$1,299	(25.3)%
Cost of home sales	**(848)**	(1,174)	(27.8)%
Operating expenses	**(44)**	(64)	(31.3)%
	$78	$61	27.9%

Killam completed nine home sales and two home placements during 2015, compared to thirteen home sales in 2014. Operating margins were slightly higher in 2015 due to the decision to sell a longstanding home in 2014 at below cost. Operating expenses have decreased over the prior year as a result of not completing as many home sales during the year. Since the sale of portions of the MHC portfolio in May 2012 and November 2013, the opportunity for home sales has decreased and is no longer a strategic priority for Killam.

Corporate Income

For the years ended December 31,

	2015	2014	% Change
	$1,417	$1,175	20.6%

Corporate income includes property management fees, interest on bank account balances and interest on loans receivable. The 20.6% increase year-over-year relates to additional property management fees earned on managing five properties in 2015 compared to four in 2014. The Company also earned interest revenue on a $4.0 million mezzanine loan that was issued in May 2014, bearing interest at prime plus 7.0% or a minimum of 10.0%, as well as, a $0.95 million vendor take-back ("VTB") loan issued in June 2015, bearing interest at 6.5%.

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

Fair Value (Loss) Gain

For the years ended December 31,

	2015	2014	% Change
Apartments	**$(6,837)**	$(298)	2,194.3%
MHCs	**734**	4,730	(84.5)%
IPUC	**-**	336	N/A
	$(6,103)	$4,768	(228.0)%

Killam recorded $6.8 million in fair value losses on its apartment portfolio in 2015, compared to the $0.3 million in fair value losses recorded in 2014. This fair value loss is attributable to increases in capital reserves, partially offset by slight cap-rate compression and 2.3% NOI growth.

In 2015 Killam realized a $0.7 million fair value gain on its MHC portfolio, compared to a $4.7 million gain for the year ended December 31, 2014. The 3 bps increase in the effective weighted average cap-rate used to value the MHCs portfolio was offset by the 1.0% stabilized NOI growth for this portfolio.

See further discussion on cap-rates in the "Investment Properties" section of the MD&A.

Other Expenses

Financing Costs

For the years ended December 31,

	2015	2014	% Change
Mortgage, loan and construction loan interest	**$31,808**	$29,572	7.6%
Amortization of fair value adjustments on assumed debt	**(570)**	(499)	14.2%
Amortization of loss on interest rate hedge	**59**	-	N/A
Convertible debenture interest	**6,836**	6,752	1.2%
Capitalized interest	**(1,089)**	(1,216)	(10.4)%
	$37,044	$34,609	7.0%

Financing costs increased $2.4 million, or 7.0%, in 2015 due primarily to new debt placements on acquired properties. Killam's acquisitions in the last eighteen months totaled $170.0 million and debt associated with these acquisitions totaled $119.6 million.

Mortgage and loan interest expense related to Killam's same store properties was $24.5 million in 2015, down from $26.2 million in 2014. As a percentage of property revenue, same store mortgage and loan interest expense was lower year-to-date, at 17.2% compared to 18.8% in 2014. This decrease is a result of refinancings at lower interest rates. The average interest rate on refinancings for same store properties year-to-date was 2.24%, 227 bps lower than the average interest rate before refinancing.

Capitalized interest decreased 10.4% in 2015 compared to 2014. 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 at December 31, 2015, would affect financing costs by approximately $9.5 million per year. However, only $123.0 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 in interest rates, financing costs would increase by $1.2 million per year. The Company's credit facilities are discussed on page 33 of the MD&A.

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

Depreciation Expense

For the years ended December 31,

	2015	2014	% Change
	$802	$644	24.5%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and administrative office furniture, fixtures and computer software 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 in 2015 was a result of depreciation related to vehicles, computer software and leasehold improvements.

Amortization of Deferred Financing Costs

For the years ended December 31,

	2015	2014	% Change
	$1,913	$1,711	11.8%

Deferred financing amortization increased 11.8% as a result of fees related to refinancings and new debt placed on acquired properties and completed developments over the last twelve months. 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. The costs associated with the convertible debentures are amortized over the terms of the debentures.

Administration Expenses

For the years ended December 31,

	2015	2014	% Change
Administration (including REIT conversion costs)	**$11,898**	$8,525	
REIT conversion costs	**$(1,654)**	$(89)	
Administration (excluding REIT conversion costs)	**$10,244**	$8,436	21.4%
As a percentage of total revenues	**6.1%**	5.7%	

Administration expenses include expenses which 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. Administrative expenses as a percentage of revenues increased for the year ended December 31, 2015, relating primarily to additional accrued variable compensation reflecting strong financial performance year-over year. Management targets annualized administrative costs at approximately 6.0% of total revenues.

Deferred Tax Expense

Killam has booked future income tax expense for years ended December 31, 2015, and 2014. Killam is not currently cash taxable as it has the ability to claim CCA deductions to reduce taxable income.

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.

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

PART V

Funds from Operations

FFO is recognized as an industry-wide standard measure for real estate entities' operating performance, and Management considers FFO per share 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 does 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 years ended December 31, 2015, and 2014, is determined as follows:

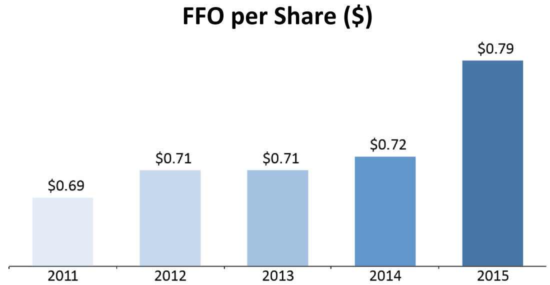
For the years ended December 31,

	2015	2014	% Change
Net income	**$35,800**	$32,667	9.6%
Fair value loss (gain)	**6,103**	(4,768)	(228)%
Fair value gains included in equity income	**-**	(229)	-%
Non-controlling interest (before fair value gain)	**(1,058)**	(1,042)	1.5%
Deferred tax expense	**6,216**	13,472	(53.9)%
Current tax recovery	**-**	(1,451)	(100.0)%
Depreciation on owner-occupied building	**192**	167	15.0%
Loss on disposition	**109**	1,257	(91.3)%
REIT conversion costs	**1,654**	89	1,758.4%
FFO	**$49,016**	$40,162	22.0%
FFO/share - diluted	**$0.79**	$0.72	9.7%
Weighted average number of shares - diluted (1)	**62,360**	55,664	12.0%

(1) The calculation of weighted average shares outstanding for diluted FFO purposes excludes the convertible debentures for the years ended December 31, 2015, and 2014 as they are anti-dilutive. 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 $49.0 million, or $0.79 per share, during 2015 compared to $40.2 million, or $0.72 per share, during 2014. The 9.7% increase in FFO per share is attributable to contributions from acquisitions and completed and stabilized developments ($5.9 million), same store NOI growth of 4.2% ($3.2 million), interest expense savings on refinancings at lower interest rates ($1.7 million), and an increase in corporate income related to higher management fees ($0.2 million). This growth was partially offset by an increase in administration costs associated with variable compensation in 2015 ($1.2 million), an increase in amortization and depreciation ($0.4 million), a reduction in capitalized interest ($0.1 million) and a 12.0% increase in the weighted average shares outstanding. FFO has been adjusted for costs incurred in 2015 and 2014 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.

FFO per Share ($)



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 Company's payout ratio, Management has calculated AFFO using $450 per apartment unit. The MHC industry does not have a standard amount for "maintenance" related capital expenditures. Management has 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 year was used to determine the capital adjustment applied to FFO to calculate AFFO.

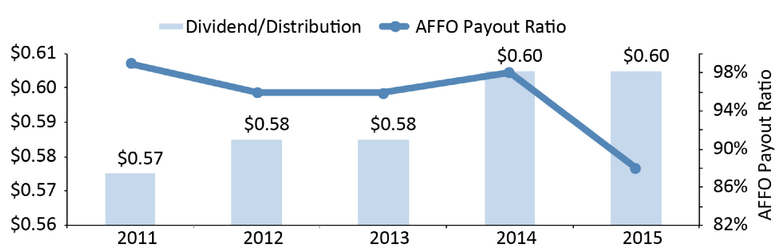
For the years ended December 31,

	2015	2014	% Change
FFO	**$49,016**	$40,162	22.0%
Maintenance Capital Expenditures			
Apartments	**(5,861)**	(5,623)	4.2%
MHCs	**(516)**	(516)	-%
AFFO	**$42,639**	$34,023	25.3%
AFFO/ share - diluted(1)	**$0.68**	$0.61	11.5%
AFFO payout ratio - diluted(2)	**87.7%**	98.1%	(10.6)%
Weighted average number of shares - diluted	**62,360**	55,664	12.0%

(1) The calculation of weighted average shares outstanding for diluted AFFO purpose excludes the convertible debentures for the years ended December 31, 2015 and 2014, 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 dividend of $0.60 for 2015 and 2014.

Management is pleased to report an improved payout ratio for the year ending December 31, 2015, as noted above. Killam's board evaluates the Company'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. Future earnings growth from same store operations and accretive acquisitions is expected to further lower the payout ratio.

Killam's Annual Dividend & AFFO Payout Ratio



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

PART VI

Investment Properties

As at December 31,

	2015	2014	% Change
Investment properties	**$1,794,580**	$1,693,055	6.0%
Investment properties under construction ("IPUC")	**45,676**	40,840	11.8%
	$1,840,256	$1,733,895	6.1%

Continuity of Investment Properties

The following table summarizes the changes in value of Killam's investment properties for the years ended December 31, 2015, and 2014.

As at and for the years ended December 31,

	2015	2014
Balance, beginning of year	**$1,693,055**	$1,451,743
Acquisition of properties	**41,924**	219,635
Disposition of properties	**-**	(29,521)
Transfer from IPUC	**36,147**	14,098
Transfer to IPUC	**(2,300)**	-
Capital expenditures	**31,857**	32,668
Fair value adjustment - Apartments	**(6,837)**	(298)
Fair value adjustment - MHCs	**734**	4,730
Balance, end of year	**$1,794,580**	$1,693,055

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 December 31, 2015, and 2014, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	December 31, 2015			December 31, 2014		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**4.12%**	**8.00%**	**5.52%**	4.50%	8.00%	5.61%
MHCs	**5.75%**	**8.00%**	**6.82%**	5.75%	8.00%	6.79%

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

2015 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Year Built	Units/ Square Feet ("SF")	Purchase Price[1]
Apartments					
20 Technology Drive	Saint John	17-Jun-15	2014	59 units	$8,300
1471/1483/1489/1491 Carlton Street[2]	Halifax	5-Aug-15	1863-1951	4 units	$2,100
125 Knightsridge Street	Halifax	1-Dec-15	1986-1987	26 units	$2,175
Commercial properties					
Brewery Market	Halifax	31-Mar-15	1820-1984	158,000 SF	$22,300
Medical Arts Building[2]	Halifax	5-Aug-15	Pre-1960	18,000 SF	$6,350
Other					
Vacant land[3]	Halifax	31-Mar-15			$5,200
Vacant land[4]	Calgary	21-Dec-15			$7,250
Total Acquisitions					**$53,675**

(1) Purchase price on acquisition does not include transaction-related costs.
(2) Acquired as a portfolio for future development opportunities.
(3) Purchase price represents 50% ownership interest in land for the construction of a 242-unit multi-residential property. The land also includes capacity for an additional 40 units.
(4) Purchase price represents 50% ownership interest in vacant land adjacent Killam's Calgary property for the construction of a potential 396-unit multi-residential property.

Investment Properties Under Construction

For the years ended December 31,

	2015	2014
Balance, beginning of year	**$40,840**	$24,373
Capital expenditures	**20,764**	29,013
Interest capitalized	**1,089**	1,216
Land acquisitions	**17,973**	-
Land disposition	**(1,143)**	-
Transfer from investment properties	**2,300**	-
Transfer to investment properties	**(36,147)**	(14,098)
Fair value gain	**-**	336
Balance, end of year	**$45,676**	$40,840

During 2015 Killam completed two developments including Chelsea Place in St. John’s, NL and its first development in Ontario, Saginaw Gardens located in Cambridge. Both buildings were completed on time and on budget and were fully leased within six months of opening. The cost of the development in St. John’s was $21.8 million ($213,000 per unit) resulting in an all cash yield of 6.0%. The cost of the building in Cambridge was $25.3 million ($207,000 per unit) resulting in an all cash yield of 5.8%. These returns are an estimated 100 bps premium over the yield anticipated on acquisitions of similar quality assets in these locations.

Construction of the 142-unit Southport development, located in downtown Halifax is expected to be completed in the third quarter of 2016. Killam owns a 50% interest in the project, representing 70 rental units. 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 in that location. To date, Killam has invested $8.2 million on the project.

During 2015 Killam acquired a 50% interest in vacant land for 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 Q3-2017. 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 in that location. To date, Killam has invested $8.4 million in the project, representing its 50% interest in the project.

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

In December 2015, Killam acquired a 50% interest in a parcel of land adjacent its property located in Calgary for $7.5 million. This land was acquired for future development. Killam will continue to assess opportunities to acquire land for future development. In addition to the projects currently under construction, Killam has the following land available for future development:

Property	**Location**	**Development Potential** (# of Units)	**Status**
Silver Spear[1]	Mississauga, ON	110	In design and approval process
Saginaw - Phase II	Cambridge, ON	93	In design and approval process
Spring Garden Terrace Land	Halifax, NS	106	Approved development agreement
The Alexander - Phase II[1]	Halifax, NS	40	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	396	Future development
Total Development Opportunities		**1,350**	

(1) 50% ownership

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the year ended December 31, 2015, Killam invested a total of $31.9 million in its portfolio, compared to $32.7 million for 2014.

For the years ended December 31,

	2015	2014	% Change
Apartments	**$28,511**	$30,096	(5.3)%
MHCs	**2,285**	2,525	(9.5)%
Commercial	**1,061**	47	2,157.4%
	$31,857	$32,668	(2.5)%

Apartments - Capital Spend

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

For the years ended December 31,

	2015	2014	% Change
Building improvements	**$16,052**	$18,498	(13.2)%
Suite renovations	**9,701**	9,470	2.4%
Appliances	**944**	1,246	(24.2)%
Boilers and heating equipment	**1,335**	363	267.8%
Other	**210**	237	(11.4)%
Equipment	**218**	197	10.7%
Parking lots	**40**	45	(11.1)%
Land improvements	**11**	40	(72.5)%
Total capital spend	**$28,511**	$30,096	(5.3)%
Average number of units outstanding	**13,093**	12,870	1.7%
Capital spend per unit	**$2,178**	$2,338	(6.8)%

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 are 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.

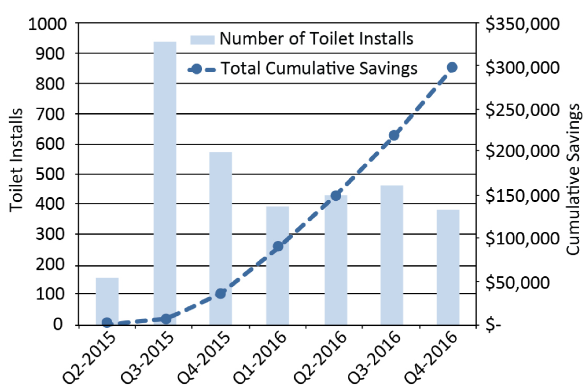
Dollar amounts in thousands of Canadian Dollars (except as noted)

Of the $28.5 million capital investment made in the apartment segment in 2015, approximately 60% was invested in building improvements, which included several large projects with major façade upgrades, roof replacements, common area renovations and energy efficiency investments to increase the quality of the Company's portfolio.

The 2015 energy improvements included the following:

Project	Description	Annualized Savings	Payback
Water	Installed 1,900 low-flow toilets	$255,000	2.2 years
Electric	Upgraded common area lighting at 6 properties	$35,000	1.5 years
Building Controls	Installed smart automated controls in boiler rooms of 8 properties	$75,000	1.7 years
Fuel	Upgraded boilers and maximized duel burner capacity	$150,800	2.5 years
Total (Weighted average)		**$515,800**	**2.2 years**

Anticipated efficiency investments for 2016 include the installation of 2,000 low-flow toilets, additional smart automated building system controls, boiler upgrades and various other electric related projects. The following chart highlights the anticipated water savings from Killam's low-flow toilet install program.

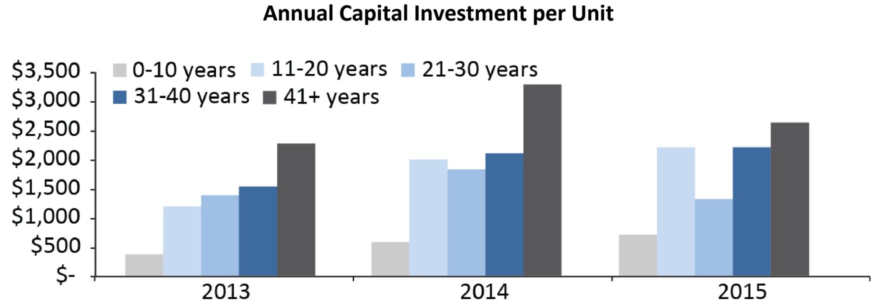


Approximately 40% of the apartment capital investment for the year was invested in suite renovations. On a per unit basis, approximately $1,350 was invested in both 2014 and 2015 with a focus on improving the quality of Killam's units to maximize occupancy and rental increases. The increased costs associated with flooring upgrades and high-quality finishes were offset with savings realized through standardizing the suite renovation process and bulk purchasing.

The Company continues to reposition properties that show significant value creation opportunities by upgrading suites and generating increased NOI through higher rents. The Company identified its 199-unit property located in Mississauga, ON, as a property with significant potential for repositioning and rental growth. In 2015, Killam completed 20 unit renovations averaging $14,000 per turn including new flooring, kitchen and bathroom upgrades. These upgrades have achieved rental increases of approximately 12.5% and an average return on investment of 13%. The Company expects to continue to upgrade units at this property in 2016 as turnover allows.

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.

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



As the above chart highlights, the capital spend per unit is less for newer properties, averaging $706 per unit in 2015, compared to $2,609 per unit for buildings over 40 years old. Killam's continual focus on development and acquiring new properties aids in maintaining lower capital requirements on a per unit basis. Twenty-five percent of Killam's apartments, as a percentage of anticipated 2016 NOI, have been built in the past ten years.

Value enhancing capital improvements increase the operating effectiveness and profitability of Killam's apartment portfolio and the Company expects to invest between $28-30 million during 2016 on capital investments across its apartment portfolio.

MHCs - Capital Spend

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

For the years ended December 31,

	2015	2014	% Change
Water & sewer upgrades	**$1,236**	$1,226	0.8%
Site expansion and land improvements	**261**	544	(52.0)%
Other	**410**	468	(12.4)%
Roads and paving	**302**	272	11.0%
Equipment	**76**	15	407%
Total capital spend - MHCs	**$2,285**	$2,525	(9.5)%
Average number of units outstanding	**5,165**	5,165	-%
Capital spend per unit	**$442**	$489	(9.6)%

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 value enhancing. Management estimates that $100 per unit is 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 investment.

As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community. Killam expects to invest $2.0 - $3.0 million during 2016 on capital improvements across the MHC portfolio.

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

Loans Receivable

On May 23, 2014, the Company provided a $4.0 million mezzanine loan to a third-party developer for the construction of a multi-family residential property, bearing interest at prime plus 7.0% or a minimum of 10.0%, paid quarterly. Full repayment of the loan is due within 36 months from the initial advance. The Company also has a vendor take-back loan receivable for $0.95 million, bearing interest at 6.5%.

Liquidity and Capital Resources

Killam's sources of capital are cash generated from operating activities, mortgage financings and refinancings, credit facilities, and equity and debt issuances. Killam's primary use of capital includes property acquisitions and developments, major property improvements, property maintenance, debt principal and interest payments, and payment of dividends. The Company anticipates meeting all current and future obligations with a combination of current cash and cash equivalents, cash flow generated from operations and conventional mortgage refinancings, including net cash accessible through upfinancings, and that the Company will be able to obtain financing on reasonable terms.

Killam's ability to grow through acquisitions and development will be dependent on the ability to access mortgage debt, construction financing and to raise equity in the capital markets. Killam had cash on hand of $11.7 million at December 31, 2015.

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at December 31,

	2015	2014	% Change
Weighted average years to maturity of mortgage and vendor debt (years)	**4.2**	4.4	(0.2 years)
Gross mortgage, loan and vendor debt as a percentage of total assets	**50.4%**	49.4%	100 bps
Total debt as a percentage of total assets	**55.7%**	54.9%	80 bps
Interest coverage ratio	**2.34x**	2.21x	13 bps
Debt service coverage ratio	**1.35x**	1.34x	1 bps
Weighted average interest rate of mortgage and vendor debt	**3.27%**	3.60%	(33) bps
Weighted average interest rate of total debt	**3.60%**	3.93%	(33) bps

The Company's long-term debt consists largely of fixed-rate, long-term mortgage financing. In certain cases the Company will also utilize VTB 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.

Killam's December 31, 2015, weighted average interest rate on mortgages improved to 3.27% from 3.60% at December 31, 2014, as a result of refinancings at lower interest rates during the period. This trend is expected to continue over the next year with $123.0 million of mortgage balances maturing. Management expects to refinance these mortgages at lower interest rates than their current weighted average rates of 4.19%. These refinancings represent 13.0% of Killam's total mortgage portfolio.

Total debt as a percentage of total assets has increased 80 bps to 55.7% from December 31, 2014. 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 at December 31, 2015, would have increased the ratio of debt as a percentage of total assets by 90 bps.

Excluding the outstanding convertible debentures, Killam's debt as a percentage of assets is 50.4%. The convertible debentures mature in 2017 ($57.5 million) and 2018 ($46.0 million). Killam has the option to redeem the convertible debentures at fair value anytime after November 2015 and June 2016, respectively. Management may redeem the convertible debentures with equity in the future and thereby reduce Killam's debt levels.

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

2015 Refinancings

During the year ended December 31, 2015, Killam refinanced the following mortgages:

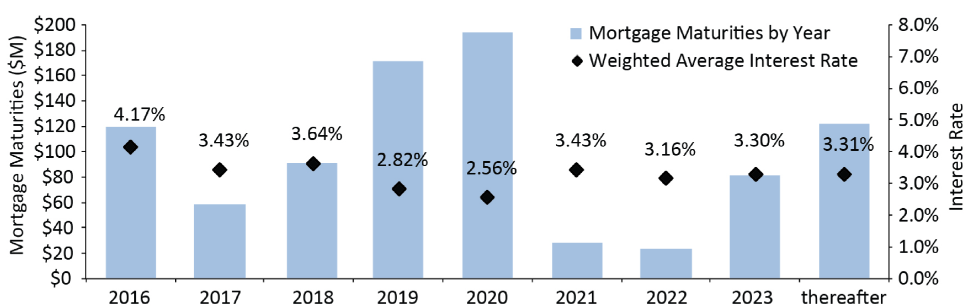
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$87,165	4.48%	$128,393	2.17%	6.0 years	$41,228
MHCs	3,968	5.19%	7,327	3.52%	5.0 years	3,359
	$91,133	4.51%	$135,720	2.24%	5.9 years	$44,587

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

	Apartments			MHCs		Total	
Year of Maturity	Balance December 31, 2015	Weighted Avg Int. Rate %	% CMHC Insured	Balance December 31, 2015	Weighted Avg Int. Rate %	Balance December 31, 2015	Weighted Avg Int. Rate %
2016	120,047(1)	4.17	49.3	2,992	5.08	123,039	4.19
2017	58,960	3.43	43.1	16,540	4.65	75,500	3.69
2018	90,919	3.64	41.0	12,277	4.34	103,196	3.73
2019	171,098	2.82	97.1	19,582	3.86	190,680	2.93
2020	194,204	2.56	57.6	7,222	3.52	201,426	2.59
2021	28,655	3.43	91.2	-	-	28,655	3.43
2022	23,060	3.16	100.0	-	-	23,060	3.16
2023	81,512	3.30	100.0	-	-	81,512	3.30
Thereafter	121,521	3.31	100.0	-	-	121,521	3.31
	$ 889,976	3.21	73.3	$ 58,613	4.20	$948,589	3.27

(1) Excludes $11.2 million related to demand loans classified as current mortgage debt on the December 31, 2015, consolidated financial statements.

Apartment Mortgage Maturities by Year



As at December 31, 2015, approximately 73% of the Company's apartment mortgages were CMHC insured (69% of all mortgages as MHC properties are not eligible for CMHC insurance) (December 31, 2014 – 75% and 70%). The weighted average interest rate on the CMHC insured mortgages was 3.01% as at December 31, 2015 (December 31, 2014– 3.31%).

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 favourable rates.

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

The following table presents the NOI for properties that are available to Killam to refinance at debt maturity in 2016:

	Number of Properties	**NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	34	$14,276	$119,706
MHCs with debt maturing	4	732	2,909
2016 debt maturities	38	$15,008	$122,615

Future Contractual Debt Obligations

At December 31, 2015, the timing of the Company's future contractual debt obligations are as follows:

For the year ended December 31,	Mortgage and loans payable	Construction loans	Convertible debentures	Total
2016	$156,218	$4,115	$-	$160,333
2017	101,881	-	57,500	159,381
2018	117,475	-	46,000	163,475
2019	186,083	-	-	186,083
2020	185,959	-	-	185,959
Thereafter	212,222	-	-	212,222
	$959,838	$4,115	$103,500	$1,067,453

Convertible Debentures

Killam’s $57.5 million convertible unsecured subordinated debentures mature November 30, 2017, bear interest at 5.65% and are convertible, at the holders’ option, to Trust Units at a price of $13.40. The debentures were redeemable at the option of Killam after November 30, 2013, and on or before November 30, 2015, provided that the current market price of the common shares of the Company on the date on which the notice of redemption was given was not less than 125% of the conversion price. After November 30, 2015, the debentures were 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 5 days preceding the fixed date for redemption or maturing).

Killam’s $46.0 million convertible unsecured subordinated debentures mature June 30, 2018, bear interest at 5.45% and are convertible, at the holders’ option, to Trust Units at a price of $14.60. The debentures were redeemable at the option of Killam after June 30, 2014, and on or before June 30, 2016, provided that the current market price of the Trust Units of Killam on the date on which the notice of redemption is given is not less than 125% of the conversion price. After June 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 5 days preceding the fixed date for redemption or maturing).

Construction Loan

As at December 31, 2015, Killam had access to a 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 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 converted into a conventional mortgage. As at December 31, 2015, $4.1 million (December 31, 2014 - $31.9 million) was drawn at a weighted average interest rate of 3.45% (December 31, 2014 - 3.84%).

Credit Facilities

The Company has two credit facilities with major financial institutions, which are set out as follows:

I. A $2.0 million revolving demand facility that can be used for Killam's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 bps on prime rate advances or 225 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. As at December 31, 2015, the Company had assets with a carrying value of $1.6 million pledged to the line and a balance outstanding of $Nil (December 31, 2014 - $Nil). The agreement includes certain covenants and undertakings of which Killam is in compliance.

II. 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 December 31, 2015, the Company had assets with a carrying value of $1.8 million pledged as collateral and letters of credit totaling $1.5 million outstanding against the facility (December 31, 2014 - $1.5 million). The agreement includes certain covenants and undertakings of which Killam is in compliance.

Shareholders' Equity

On March 31, 2015, the Company issued 1,092,548 common shares to Halkirk Properties Limited to satisfy $12.0 million of the $27.5 million purchase price for the acquisition of the Brewery Market and a 50% interest in vacant land (refer to related party transactions on page 40).

On August 5, 2015, the Company issued 249,311 common shares to satisfy $2.5 million of the $8.4 million purchase price for the acquisition of 5880 Spring Garden Road, 1489/1491 Carlton Street, 1483 Carlton Street and 1471 Carlton Street.

During the year, 367,907 stock options were exercised for common shares, and cash proceeds to the Company of $3.0 million. All outstanding stock options were exercised in Q2-2015 and as at December 31, 2015, there are no stock options outstanding. There were also 48,957 restricted share units ("RSUs") redeemed, and 30,696 shares issued related to redemptions during 2015 (December 31, 2014 – 42,856 redeemed and 25,197 shares issued).

During Q3-2015, the Company repurchased through its normal course issuer bid 21,000 common shares at an average price of $9.98.

During 2015, Killam paid a dividend of $0.05 per share per month ($0.60 per share annualized).

For the year ended December 31, 2015, Killam issued 667,594 shares under its Dividend Reinvestment Plan with a value of $6.9 million (December 31, 2014 – 246,533 shares with a value of $2.6 million). For the year ended December 31, 2015, the average participation rate was 19% (December 31, 2014 - 8%). Effective January 1, 2016, the Trust assumed all of Killam's obligations under the Dividend Reinvestment Plan and the plan was amended and restated to become the Distribution Reinvestment Plan ("DRIP"). Pursuant to the DRIP, Unitholders may elect to have all cash distributions of the Trust automatically reinvested in additional Trust units at a price per Trust unit calculated by reference to the weighted average of the closing price of Trust units on the TSX for the ten trading days immediately preceding the relevant distribution date. Unitholders who elect will receive a further distribution of Trust units equal in value to 3% of each distribution that was reinvested by the Unitholder.

As at February 16, 2016, Killam had 58,174,798 Trust Units and 4,748,061 exchangeable units outstanding.

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

PART VII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

	2015				2014			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Property revenue	**$42,433**	**$43,193**	**$41,452**	**$39,536**	$38,147	$37,777	$36,518	$35,065
NOI	**25,361**	**27,178**	**25,196**	**20,655**	21,767	23,773	21,441	17,620
Net income attributed to common shareholders	**7,420**	**11,462**	**8,753**	**6,922**	(9,259)	20,491	13,671	4,869
Earnings per share (diluted)	**$0.12**	**$0.17**	**$0.14**	**$0.11**	$(0.12)	$0.33	$0.23	$0.09
FFO	**12,403**	**14,779**	**12,912**	**8,922**	10,250	12,919	10,179	6,826
FFO per share (diluted)	**$0.20**	**$0.24**	**$0.21**	**$0.15**	$0.18	$0.23	$0.18	$0.12
AFFO per share (diluted)	**$0.17**	**$0.21**	**$0.18**	**$0.12**	$0.15	$0.21	$0.16	$0.10
Weighted average shares outstanding (diluted) (000's)	**62,951**	**70,104**	**62,360**	**61,035**	57,544	62,614	55,020	54,896

Killam's total property revenue for the three months ended December 31, 2015, was $42.4 million, an 11.2% increase in revenue over the same period of 2014. The growth was generated through revenue from acquisitions and developments, as well as increased same store revenue. Total property expenses increased 4.2% in Q4-2015 compared to Q4-2014 as a result of expenses associated with new acquisitions and completed developments. Despite the increase in property expenses, the Q4-2015 operating margin increased 270 bps as a result of lower utility and fuel expenses and higher margins on newly acquired assets.

Q4 Same Store NOI

For the year ended December 31,

	Total Portfolio			Apartments			MHCs		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$35,630**	$35,052	1.6%	**$32,399**	$31,907	1.5%	**$3,231**	$3,145	2.7%
Operating expenses	**5,783**	5,753	0.5%	**4,997**	5,018	(0.4)%	**786**	735	6.9%
Utility and fuel expenses	**4,915**	5,237	(6.1)%	**4,603**	4,918	(6.4)%	**312**	319	(2.2)%
Property taxes	**3,979**	3,890	2.3%	**3,831**	3,745	2.3%	**148**	145	2.1%
Total property expenses	**14,677**	14,880	(1.4)%	**13,431**	13,681	(1.8)%	**1,246**	1,199	3.9%
NOI	**$20,953**	$20,172	3.9%	**$18,968**	$18,226	4.1%	**$1,985**	$1,946	2.0%
Operating margin	**58.8%**	57.5%	130 bps	**58.5%**	57.1%	140 bps	**61.4%**	61.9%	(50) bps

Apartment Same Store

Killam's same store apartment portfolio realized NOI growth of 4.1% for Q4-2015 due to a 1.5% increase in net revenues along with a 1.8% savings realized in total operating expenses. Net apartment revenue growth of 1.5%, or $0.5 million, quarter-over-quarter is the result of increased rental rates of 1.3%, decreased rental incentive offerings and higher occupancy. Rental incentive offerings decline 25 bps to 0.65% of residential rent for the quarter compared to 0.90% in Q4-2014. Killam realized stronger occupancy in Halifax, Moncton, Saint John and Charlottetown in Q4-2015, increasing the same store apartment occupancy 30 bps in the fourth quarter to 96.1% compared to 95.8% in Q4-2014. A 6.4% savings was realized in utility and fuel expense, which was the main driver of both the decrease in total property operating expenses and the 140 bps increase in the operating margin for Q4-2015. These savings were due to decreased natural gas and oil pricing compared to Q4-2014, along with reduced water and heating fuel consumption related to energy efficiency projects implemented in 2015.

MHC Same Store

The MHC same store portfolio continued to generate strong revenue growth, up 2.7% from Q4-2014, driven by increased rental rates and stable occupancy quarter-over-quarter. Total same store property expenses increased 3.9% due to higher snow removal costs, along with increased property tax costs. This was partially mitigated by reduced water consumption in several parks. The same store MHC portfolio realized NOI growth of 2.0% quarter-over-quarter.

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

Q4 FFO and AFFO

For the years ended December 31,

	2015	2014	% Change
Net income	**$8,069**	$(8,554)	(194.3)%
Fair value losses	**7,651**	16,814	(54.5)%
Fair value gain in equity income	**-**	(229)	-%
Non-controlling interest (before fair value gains)	**(264)**	(248)	6.5%
Depreciation on owner-occupied building	**47**	42	11.9%
Loss on disposition	**-**	1,351	-%
Tax planning costs	**1,477**	-	N/A
Current tax recovery	**-**	(1,124)	-%
Deferred tax expense	**(4,577)**	2,198	(308.2)%
	$12,403	$10,250	21.0%
FFO/share - diluted	**$0.20**	$0.18	11.1%
AFFO/share (diluted)	**$0.17**	$0.15	13.3%
Weighted average shares - diluted (000's)	**62,951**	57,544	9.4%
AFFO payout ratio - diluted	**87.5%**	99.3%	(11.9)%

FFO was $12.4 million in the fourth quarter, up 21.0% from $10.3 million in the fourth quarter of 2014. FFO per share was $0.20 in Q4-2015, an 11.1% increase over the same period in 2014. This increase was related to increased same store growth ($1.6 million) and acquisitions and developments ($1.2 million) offset by higher administrative costs ($0.4 million), a decrease in capitalized interest ($0.3 million) and a 9.4% increase in the weighted average shares outstanding.

Selected Consolidated Financial Information

For the years ended December 31,

	2015	2014	2013
Property revenue	**$166,614**	$147,507	$141,112
Net income attributable to common shareholders	**$34,557**	$29,772	$39,779
Earnings per share (diluted)	**$0.55**	$0.53	$0.69
FFO	**$49,016**	$40,162	$38,770
FFO per share (diluted)	**$0.79**	$0.72	$0.71
Investment properties	**$1,840,256**	$1,733,895	$1,476,116
Total assets	**$1,876,276**	$1,775,234	$1,532,431
Total liabilities	**$1,190,948**	$1,112,551	$928,371
Dividend per share	**$0.60**	$0.60	$0.58

PART VIII

Risk Management

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

Real estate is relatively illiquid. Such illiquidity will tend to limit Killam's ability to rebalance its portfolio promptly in response to changing economic or investment conditions. In addition, financial difficulties of other property owners, resulting in distress sales, may depress real estate values in the markets in which the Company operates.

Killam's exposure to general risks associated with real estate investments is mitigated with both its geographic diversification, and investments in both apartments and MHCs.

Killam is exposed to other risks, as outlined below:

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

As at December 31, 2015, no mortgages or vendor debt had floating interest rates except for five demand loans totaling $11.8 million and two revolving demand facilities. These loans have an interest rate of prime plus 1.0% - 2.0%. Killam also has a construction loan totaling $4.1 million with a floating interest rate of prime to prime plus 0.75% and consequently, Killam is exposed to short-term interest rate risk on this loan.

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

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

Credit Risk
Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing and Killam also obtains a security deposit to assist in potential recovery requirements. Killam's bad debt expense has historically been less than 0.4% of revenues. None of Killam's tenants account for more than 1% of tenant receivables.

Development Risk
Development risk is the risk that costs of developments will exceed original estimates, unforeseen delays occur and/or units will not be leased in the timeframe and/or at rents anticipated. Killam minimizes its exposure to development risk by limiting the amount of development underway at any one time to less than 5% of its consolidated statement of financial position. To reduce Killam's exposure to cost increases, Killam enters into fixed-rate contracts when possible. To reduce the lease-up risk, Killam does market research in advance of each development to support expected rental rates, and premarkets its properties early on in the process, to increase demand for the new developments.

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

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

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

Utility, Energy and Property Tax Risk
Killam is exposed to volatile utility and energy costs and increasing property taxes. Utility and energy expenses, mainly consisting of oil, natural gas, water and electricity charges, have been subject to considerable price fluctuations over the past several years. Killam has the ability to raise rents on the anniversary date of its leases, subject to the overall rental market conditions, to offset rising energy and utility costs, however rental increases may be limited by market conditions. Killam invests in energy efficiency initiatives to reduce its reliance on utility costs; however, Killam remains exposed to price volatility. Killam has the ability to fix rates through the use of swap contracts for a portion of its oil and fixed contracts through suppliers for natural gas consumption to reduce the impact of fluctuations in commodity prices. To address the risk of property tax increases, Killam, along with the assistance of outside consultants, reviews property tax assessments and, where warranted, appeals them.

Potential Volatility of Unit Prices
One of the factors that may influence the market price of the Trust Units is the annual yield on the Trust Units. An increase in market interest rates may lead purchasers of Trust Units to demand a higher annual yield, which accordingly could adversely affect the market price of the Trust units. In addition, the market price of the Trust Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of the Trust.

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

Fluctuation and Availability of Cash Distributions

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

Ability of Unitholders to Redeem Units

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

Exchangeable Units

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

Taxation-Related Risks

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

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

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

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

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

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

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

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

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

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

The SIFT Rules contain a "look-through rule" under which a trust could qualify for the REIT Exception where it holds properties indirectly through intermediate entities, provided that each such entity, assuming it were a trust, would satisfy paragraphs (1) through (4) of the REIT Exception above.

The REIT Exception does not fully accommodate the current business structures used by many Canadian REITs, and contains a number of technical tests that many Canadian REITs, including the Trust, may find difficult to satisfy. The Trust will endeavour to ensure that the Trust will qualify for the REIT Exception at all times during each Taxation Year, and each direct and indirect subsidiary of the Trust will qualify as an "excluded subsidiary entity" (as defined in the Tax Act) such that the Trust will not be a SIFT Trust within the meaning of the SIFT Rules at any time. However, there can be no assurance that this will be so. There can also be no assurance that the investments or activities undertaken by the Trust in a Taxation Year will not result in the Trust failing to qualify for the REIT Exception for that Taxation Year.

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

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

Other Canadian Tax Matters

There can be no assurance that Canadian federal income tax laws, the terms of the Canada-United States Income Tax Convention, or the administrative policies and assessing practices of the CRA, will not be changed in a manner that adversely affects the REIT or Unitholders. Any such change could increase the amount of tax payable by the REIT, or its affiliates and/or Unitholders or could otherwise adversely affect Unitholders by reducing the amount available to pay distributions or changing the tax treatment applicable to Unitholders in respect of distributions.

In structuring its affairs, the Trust consults with its tax and legal advisors and receives advice as to the optimal method in which to complete its business objectives while at the same time minimizing or deferring taxes, where possible. There is no guarantee that the relevant taxing authorities will not take a different view as to the ability of the Trust to utilize these strategies. It is possible that one or more taxing authorities may review these strategies and determine that tax should have been paid, in which case the Trust may be liable for such taxes. Such increased tax liability could have a material adverse effect upon the Trust's ability to make distributions to Unitholders.

Related Party Transactions

Killam contracted APM Construction Services Inc. ("APM") to act as Project Manager on a development project in St. John's, NL, which was completed in March 2015. APM is an entity controlled by a director of Killam. APM was paid an industry standard management fee of approximately 4% of the construction costs. For the year ended December 31, 2015, Killam paid APM $25,000 for construction management services (December 31, 2014 - $410,000). As of December 31, 2015, Killam does not have any construction projects on-going with APM.

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a company controlled by an executive and director of Killam. In addition, the property manager for the commercial complex is controlled by the executive and director and is paid an industry standard property management fee. Occasionally, Killam will also pay market leasing placement fees or project management fees, to the company controlled by an executive and director of Killam. Killam paid $45,000 (2014 - $Nil) in project management fees during 2015 related to leasehold improvements for a new commercial tenant.

On March 31, 2015, Killam acquired the Brewery Market, located in Halifax, NS, from Halkirk Properties Limited, for $22.3 million, which is partially owned by a director of Killam. Killam also acquired a 50% interest in a corporation for $5.2 million, which owns vacant land adjacent the Brewery Market for future development. The remaining 50% is also owned by Halkirk. During the fourth quarter of 2015, Killam and Halkirk commenced development of a 240-unit building on the vacant land adjacent the Brewery Market. Construction of the development is managed by Killam and cost of construction will be funded 50/50 by each partner.

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

In the application of Killam's accounting policies, which are described in note 2 of the consolidated financial statements, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying Killam's accounting policies, Management has made the following judgments and estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Valuation of Investment Properties

The fair value of investment properties is partially determined by independent real estate valuation experts (the "External Valuator") using recognized valuation techniques and partially by Management. The External Valuator uses the capitalization of net operating income ("NOI") method to determine the fair market value. In some cases, the fair values are corroborated by recent real estate transactions with similar characteristics and location to those of Killam's assets. Management's internal valuation model is also based on a capitalization of normalized NOI by property, using property specific quarterly capitalization rates ("cap-rates"), provided by an independent qualified valuation professional.

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

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets and cap-rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of IPUC. These estimates are based on local market conditions existing at the reporting date. In arriving at their estimates of market values, the External Valuator uses their market knowledge and professional judgment and does not rely solely on historical transaction comparables. The critical estimates and assumptions underlying the valuation of investment properties and developments are set out in note 5 of the financial statements.

Property Acquisitions

Management believes that the majority of Killam's acquisitions will be classified as asset acquisitions. During the acquisition of most properties, Killam buys the asset itself and any short-term leases that are in place. Generally, Killam does not purchase any business systems or processes with a property. Management considers the following as indicators that an acquisition may be a business combination:

- The acquisition includes a property portfolio (multiple buildings);
- A significant staff complement is included, including a maintenance team, leasing representatives and property management personnel; and
- Systems are acquired and continue to be incorporated into operations.

Taxes

Killam is subject to income and capital gains taxes in numerous jurisdictions. Significant judgment is required to determine the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain. Killam recognizes liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. Deferred tax assets and liabilities are recognized on a net basis to the extent they are relating to the same fiscal entity and fall due in approximately the same period.

Consolidation and joint arrangements

Management has determined that Killam controls and consolidates the subsidiaries where it owns a majority of the shares. Killam is part owner of one property in which it has a 49% interest. Management has determined that Killam does control this property as it operates and manages the property, governs the financial and operating policies, and has the power to cast the majority of the votes at meetings of the board of directors given the widely held distribution of the remaining ownership percentage. This property is accounted for on a consolidated basis.

Management is required to make an assessment of all joint arrangements to determine the correct classification as a joint operation or joint venture. This determination is based on the rights and obligations of the parties within the arrangement. To be classified as a joint operation, the joint arrangement is such that Killam has rights to the assets, and obligations for the liabilities, relating to the arrangement. To be classified as a joint venture Killam has rights to the net assets of the arrangement. Management has determined that as at December 31, 2015, all joint arrangements are classified as joint operations.

Valuation of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using valuation techniques, including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments as FVTPL and determining whether Killam has significant influence over investees with which it has contractual relationships in addition to the financial instrument it holds.

Future Accounting Policy Changes

As at February 16, 2016, the following new or amended IFRS have been issued by the IASB and are expected to apply to Killam for annual reporting periods beginning after December 31, 2015:

IFRS 9 *Financial Instruments* ("IFRS 9")
In July 2014, the IASB issued the final version of IFRS 9 that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Killam is in the process of assessing the impact IFRS 9 may have on future financial statements and plans to adopt the new standard on the required effective date.

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018 and early adoption is permitted. Killam is in the process of assessing the impact IFRS 15 may have on future financial statements and plans to adopt the new standard on the required effective date; however, Killam does not anticipate a significant impact on the financial results as revenue earned from leases is outside the scope of the standard.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests* ("IFRS 11")
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on Killam.

Annual Improvements 2012-2014 Cycle
These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 *Presentation of Financial Statements* (“IAS 1”) clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the consolidated statements of income and comprehensive income and the consolidated statements of financial position may be desegregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statements of financial position and the statements of income and comprehensive income. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on Killam.

IFRS 16 *Leases* ("IFRS 16")
in January 2016, the IASB issued IFRS 16. The new standard requires that for most lease, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. This standard will be effective for Killam's annual periods beginning after January 1, 2019, with earlier adoption permitted so long as IFRS 15 has been adopted by Killam. Killam is assessing the impact this new standard will have on its consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls

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

Disclosure Controls and Procedures
As of December 31, 2015, Management evaluated the effectiveness of the operation of its disclosure controls and procedures (“Disclosure Controls”), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer.

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

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

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

As of the financial year ended December 31, 2015, the certifying Officers have evaluated the design and effectiveness of such ICFR, or caused them to be designed and evaluated under their supervision. The certifying Officers have concluded that the design and effectiveness of ICFR were operating effectively as at December 31, 2015, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The certifying Officers have evaluated whether there were any changes to the ICFR during the year ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect its ICFR. No changes were identified through their evaluation.

Subsequent Events

Effective January 1, 2016, the plan of arrangement ("the Arrangement") to convert Killam Properties Inc. from a corporation to a real estate investment trust ("REIT"), known as Killam Apartment REIT was completed. The units of the REIT began trading on the Toronto Stock Exchange on Thursday, January 7, 2016, under the symbol KMP.UN. Under the terms of the Arrangement each outstanding common share of Killam Properties Inc. was exchanged for one unit of the REIT, unless a qualifying shareholder elected to receive exchangeable Class B limited partnership units in a partnership controlled by the REIT in exchange for their common shares. On conversion, there were 58,114,973 trust units and 4,748,061 exchangeable units issued.

On January 19, 2016, Killam announced a distribution of $0.05 per unit, payable on February 16, 2016, to unitholders of record on January 29, 2016.