Q3-2019 Management's Discussion and Analysis

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

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PART I

Business Overview

Killam Apartment REIT ("Killam", the "Trust", or the "REIT"), based in Halifax, Nova Scotia ("NS"), is one of Canada's largest residential landlords, owning, operating, managing and developing a $3.1 billion portfolio of apartments, manufactured home communities ("MHCs") and commercial properties. Killam was founded in 2000 to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam entered the Ontario ("ON") apartment market in 2010 and made its first investment in Alberta ("AB") in 2014. Killam broke ground on its first development in 2010 and has completed eleven projects to date, with a further two projects currently under construction.

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

1) Increase earnings from the existing portfolio;

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

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

The apartment business is Killam’s largest segment and accounted for 87.9% of Killam’s net operating income ("NOI") for the nine months ended September 30, 2019. As at September 30, 2019, Killam’s apartment portfolio consisted of 16,172 units, including 968 units jointly owned with institutional partners. Killam's 197 apartment properties are located in Atlantic Canada's six largest urban centres (Halifax, Moncton, Saint John, Fredericton, St. John’s and Charlottetown), Ontario (Ottawa, London, Toronto and Kitchener-Waterloo-Cambridge), and Alberta (Calgary and Edmonton). Killam is Atlantic Canada’s largest residential landlord, owning a 13% share of multi-family rental units in its core markets. Killam plans to continue increasing its presence in Ontario and Alberta through acquisitions and developments and will continue to invest strategically in Atlantic Canada to maintain its market presence.

In addition, Killam owns 5,427 sites in 37 MHCs, also known as land-lease communities or trailer parks, in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting these communities and leases sites to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 7.5% of Killam’s NOI for the nine months ended September 30, 2019. Killam also owns eight commercial properties that accounted for 4.6% of Killam's NOI for the nine months ended September 30, 2019.

Basis of Presentation

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

The discussions in this MD&A are based on information available as at November 5, 2019. This MD&A has been reviewed and approved by Management and the REIT's Board of Trustees.

Declaration of Trust

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

Investment Guidelines

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

Operating Policies

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

As at September 30, 2019, Killam was in compliance with all investment guidelines and operating policies.

Forward-looking Statements

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

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

Non-IFRS Financial Measures

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

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, interest expense related to lease liabilities, insurance proceeds and non-controlling interest. FFO are calculated in accordance with the REALpac definition, except for the adjustment of insurance proceeds as REALpac does not address this adjustment. A reconciliation between net income and FFO is included on page 27.
- Adjusted funds from operations ("AFFO"), and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less an allowance for maintenance capital expenditures ("capex") (a three-year rolling historical average capital spend to maintain and sustain Killam's properties), commercial leasing costs and straight-line commercial rents. AFFO are calculated in accordance with the REALpac definition. Management considers AFFO an earnings metric. A reconciliation from FFO to AFFO is included on page 28.
- Adjusted cash flow from operations ("ACFO") is calculated by Killam as cash flow provided by operating activities with adjustments for changes in working capital that are not indicative of sustainable cash available for distribution, maintenance capital expenditures, commercial leasing costs, amortization of deferred financing costs and non-controlling interest. Management considers ACFO a measure of sustainable cash flow. A reconciliation from cash provided by operating activities to ACFO is included on page 29. ACFO is calculated in accordance with the REALpac definition.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") is calculated by Killam as income before fair value adjustments, gains (losses) on disposition, income taxes, interest, depreciation and amortization.
- Interest coverage is calculated by dividing EBITDA by interest expense, less interest expense related to exchangeable units.
- Debt service coverage is calculated by dividing EBITDA by interest expense, less interest expense related to exchangeable units, and principal mortgage repayments.
- Debt to normalized EBITDA is calculated by dividing interest-bearing debt (net of cash) by EBITDA that has been adjusted for a full year of stabilized earnings from recently completed acquisitions and developments.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties that Killam has owned for equivalent periods in 2019 and 2018. Same property results represent 84.3% of the fair value of Killam's investment property portfolio as at September 30, 2019. Excluded from same property results in 2019 are acquisitions, dispositions and developments completed in 2018 and 2019, non-stabilized commercial properties linked to development projects, and other adjustments to normalize for revenue or expense items that relate to prior periods or are not operational.

PART II
Key Performance Indicators

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

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

Financial and Operational Highlights

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

	Three months ended September 30,			Nine months ended September 30,		
Operating Performance	**2019**	2018	Change [2]	**2019**	2018	Change [2]
Property revenue	**$62,834**	$55,532	13.1%	**$179,064**	$157,919	13.4%
Net operating income	**$41,349**	$36,484	13.3%	**$112,404**	$98,823	13.7%
Net income	**$46,839**	$27,120	72.7%	**$156,719**	$130,899	19.7%
FFO [1]	**$26,247**	$23,355	12.4%	**$68,888**	$61,198	12.6%
FFO per unit - diluted [1]	**$0.27**	$0.26	3.8%	**$0.73**	$0.71	2.8%
AFFO [1]	**$21,967**	$19,446	13.0%	**$56,086**	$49,834	12.5%
AFFO per unit - diluted [1]	**$0.23**	$0.22	4.5%	**$0.59**	$0.58	1.7%
Weighted average number of units outstanding - diluted (000s)	**96,044**	89,176	7.7%	**94,612**	86,432	9.5%
Distributions paid per unit [3]	**$0.17**	$0.16	3.1%	**$0.49**	$0.48	3.1%
AFFO payout ratio - diluted [1]	**72%**	73%	(100) bps	**83%**	83%	— bps
AFFO payout ratio - rolling 12 months [1]	**84%**	83%	100 bps			
Portfolio Performance						
Same property NOI [1]	**$34,111**	$32,647	4.5%	**$94,240**	$90,526	4.1%
Same property NOI margin	**66.0%**	65.4%	60 bps	**62.6%**	62.2%	40 bps
Same property apartment occupancy	**97.3%**	96.9%	40 bps	**97.2%**	96.7%	50 bps
Same property apartment weighted average rental increase [4]	**3.4%**	2.5%	90 bps			

As at	September 30, 2019	December 31, 2018	Change [2]
Leverage Ratios and Metrics			
Debt to total assets	**47.2%**	49.8%	(260) bps
Weighted average mortgage interest rate	**2.91%**	2.95%	(4) bps
Weighted average years to debt maturity	**4.6**	4.4	0.2 years
Debt to normalized EBITDA [1]	**10.47x**	10.62x	(1.4)%
Debt service coverage [1]	**1.57x**	1.58x	(0.6)%
Interest coverage [1]	**3.19x**	3.22x	(0.9)%

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

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

(3) The Board of Trustees approved a 3.1% increase in Killam's distribution on an annualized basis to $0.66 per unit effective for the March 2019 distribution.

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

Summary of Q3-2019 Results and Operations

Achieved Net Income of $46.8 Million

Killam achieved net income of $46.8 million in Q3-2019 compared to $27.1 million in Q3-2018. The increase in net income is primarily attributable to fair value gains on investment properties, growth through acquisitions and increased earnings from the existing portfolio, offset by increased financing costs and deferred tax expense.

Delivered Unitholders Value through FFO per Unit Growth of 3.8% and AFFO per Unit Growth of 4.5%

Killam generated FFO per unit of $0.27 in Q3-2019, 3.8% higher than the $0.26 per unit generated in Q3-2018. FFO growth was attributable to increased NOI from strong same property performance and incremental contributions from recent acquisitions and completed developments. This growth was partially offset by a 7.7% increase in the weighted average number of units outstanding from Killam's $86.3 million equity issuance in March 2019.

AFFO per unit increased 4.5% in Q3-2019 to $0.23 compared to $0.22 in Q3-2018. The increase in AFFO per unit is attributable to Killam's same property NOI growth, accumulative acquisitions and developments, and the addition of newer, high-quality assets to the portfolio, which require lower maintenance capital.

Same Property NOI Growth of 4.5%

Killam achieved 4.5% growth in same property NOI and a 60 bps improvement in its operating margin during the quarter. This improvement was driven by strong rental rate growth and improved occupancy. Operating expenses increased 2.1%, as higher property tax and general operating expenses were offset by a reduction in utility costs. Killam's same property apartment NOI increased 4.4% during the third quarter, with Ontario and Halifax leading the NOI growth (7.8% and 5.5%). New Brunswick markets also performed well, generating 4.3% NOI growth during the quarter.

Rental Rate Growth of 3.4% Enhanced Top Line Performance

Same property revenue increased 3.7%, compared to Q3-2018, as a result of a 3.4% increase in the average rental rate for the apartment portfolio, a 40 bps increase in average apartment occupancy, a decrease in rental incentives and 4.3% top-line growth within the MHC portfolio. With continued high occupancy levels, increasing rental rates is a key focus for revenue optimization.

Same property rental rate growth has accelerated over the last seven quarters, from 1.8% in Q4-2017 to 3.4% in Q3-2019. Rental rate increases on unit turns and lease renewals averaged 5.7% and 2.1%, up from 4.6% and 1.7% a year earlier. Ontario and Halifax led the apartment performance, both achieving year-over-year same property apartment revenue increases of 5.1%.

Successful Repositioning Program Continues to Generate Above-average Returns

During Q3-2019, repositionings generated monthly rental lifts averaging $280 per unit (30% increase), an 11% increase over the average increase of $253 per unit (24% increase) during 2018. The average return on investment ("ROI") on unit repositionings during the third quarter was approximately 13%, based on an average renovation cost of $26,500 per unit. Year-to-date, Killam has invested $5.0 million in repositionings and has completed 251 units. Management expects to meet its target of 300 repositionings for 2019. These repositionings are expected to generate an additional $1.0 million in NOI on an annualized basis, and $20 million in NAV growth.

Strong NOI Growth Supported Fair Value Gains

Killam recorded $35.8 million in fair value gains related to its investment properties during the quarter ($133.7 million for the nine months ended September 30, 2019) as a result of robust NOI growth driven by increasing rental rates and strong apartment fundamentals across Killam's core markets as well as cap-rate compression in Halifax. Killam's weighted average cap-rates for its apartment and MHC portfolios at September 30, 2019 were 4.99% and 5.63%, a decrease of 16 bps and 113 bps compared to December 31, 2018.

Substantial Development Activity Underway

The Alexander and Saginaw Park developments, completed in 2018, and the Frontier development, completed in June 2019, contributed positively to FFO per unit growth in Q3-2019, together adding $0.9 million to FFO.

Killam continues to make progress on its current developments, investing $17.9 million during Q3-2019. Killam's Shorefront development is expected to be completed in mid-2020. The second phase of Killam's Gloucester City Centre development, Latitude, which broke ground during Q2-2019, contains 209 units and is actively underway. This project is expected to be completed by mid-2021.

During the quarter, Killam broke ground on The Kay, a 128-unit building in Mississauga, ON. The budget for this development is $56.0 million, with an expected all-cash yield of 5.0%, approximately a 125-175 bps premium over the market cap-rate for a similar quality asset.

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

Strategic Targets

Growth in Same Property NOI	
2019 Target	Same property NOI growth of 3% to 5%.
2019 Performance to-date	Killam achieved same property NOI growth of 4.1% during the first nine months of 2019. Growth is attributable to increased rental rates, higher occupancy and lower rental incentives, across the portfolio.

Expanded Portfolio	
2019 Target	Grow the portfolio to over $3.0 billion by the end of 2019, with a minimum acquisition target of $100 million.
2019 Performance to-date	As at September 30, 2019, Killam has met this target with $3.1 billion in portfolio assets. Year-to-date, Killam has completed $145.2 million in acquisitions and recorded $133.7 million in fair value gains related to its investment properties, contributing to this portfolio growth.

Geographic Diversification	
2019 Target	Earn at least 30% of 2019 NOI outside Atlantic Canada.
2019 Performance to-date	Killam is on track to meet this target for 2019, year-to-date approximately 30.1% of Killam's NOI has been generated outside Atlantic Canada.

Development of High-Quality Properties	
2019 Target	To complete Phase I (Frontier) of the Ottawa development, break ground on Silver Spear II, plus one additional development project.
2019 Performance to-date	Frontier was completed in June 2019, Latitude (Phase II of the Gloucester City Centre development) broke ground in Q2-2019, and Killam received all required municipal approvals and broke ground on The Kay during Q3-2019.

Strengthened Balance Sheet	
2019 Target	Manage debt as a percentage of total assets ratio below 49%.
2019 Performance to-date	Debt as a percentage of total assets was 47.2% as at September 30, 2019.

Outlook

Strong Operating Fundamentals and Population Growth Expected to Drive Above-average Rental Growth
Population growth from immigration, baby boomers and seniors transitioning from home ownership to apartment living, a growing number of people living alone and a trend for younger Canadians to delay homeownership are all expected to support strong rental demand for the foreseeable future. An increase in single-family home prices are also increasing demand for rental units.

These strong demand drivers are resulting in tight rental markets across Canada, including Atlantic Canada. Per CMHC's Fall 2018 Housing Market Outlook report, Halifax vacancy hit an all-time low of 1.6%, 70 bps below the vacancy rate for the same period in 2017 and CMHC's recent forecast for October 2019 has vacancy reducing further to 1.4%. This tight rental market is expected to support above-average rental rate growth.

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

Expanded Suite Repositioning Program
Management is committed to continuing to invest in its repositioning program and expects to invest a total of $8 million in repositioning 300 suites in 2019 to meet market demand and enhance revenue growth and the NAV of its portfolio. Suite repositionings represent unit upgrades above $10,000. Killam targets a ROI of at least 10% and monthly rental rate increases of 10%–30% upon completion of the renovation. Given the success to date, in 2020 Killam expects to expand the program further, targeting the completion of 400–500 suites. A review of Killam's portfolio has identified approximately 3,000 units having repositioning potential. Killam plans to continue to expand this program on an annual basis.

Investing in Energy Efficiency Opportunities to Reduce Consumption and Increase Margins
Investments in energy and water-saving initiatives, and operational efficiencies, are expected to continue to reduce Killam's resource consumption and improve operating margins. Killam is in its third year of a five-year, $25.0 million program to reduce the carbon footprint of its buildings through the installation of low-flow water fixtures, boiler, ventilation and cooling system upgrades, and the retrofit of temperature control and lighting systems. Killam has expanded its operations team to bring energy specialists in house to optimize this capital investment. Management is forecasting investments of $5.0 million in both 2019 and 2020 on projects with an average payback of approximately six years. These projects should improve same property NOI by lowering consumption, therefore reducing Killam’s exposure to fluctuating energy costs.

Enhancing Efficiencies through Technology
Management continues to invest in technology to improve efficiencies, enhance communication with staff and tenants, expand its use of data analytics to maximize returns and implement rent optimization software. Management is implementing enhancements to its online marketing and leasing platform to make potential tenants' online experiences seamless from initial contact to lease signing. Technology enhancements in 2019 also include upgrading the tenant mobile and online communication experience. Additional technology investments are expected in 2020.

On Track with Geographic Diversification Targets
Management remains focused on increasing its presence in Ontario and Western Canada. Killam's Q3-2019 NOI generated outside Atlantic Canada was approximately 30%, up from 26% in Q3-2018. Looking forward, Killam's recently completed acquisitions and developments, strong development pipeline in Ontario and focused acquisition strategy, should support Killam in achieving its medium-term target of 35% of its NOI generated outside Atlantic Canada by the end of 2021.

Driving FFO and NAV Growth with Developments
Development remains an important component of Killam's growth strategy. Frontier was completed in June 2019 and is currently 90% leased. Killam expects the building to be fully leased by Q1-2020 and has realized $9.7 million of value creation from the development. Killam has four current development projects underway including two in Charlottetown as well as projects in Ottawa and Mississauga.

Additionally, Killam owns land supporting a development pipeline of approximately 2,250 units, representing a potential investment of $700 million (net of land costs). Killam is moving forward with development planning for its recently acquired development lands in Waterloo and Kitchener and targets beginning construction in 2020. Developments reinforce Killam's position as the owner of one of the newest and highest-quality apartment portfolios in Canada. See further discussion on land held for future development in the “Investment Properties” section of this MD&A.

Focus on Improving Debt Metrics and Increasing Capital Flexibility
Killam manages its balance sheet to maximize capital flexibility. Killam continues to improve its key debt metrics and increase its pool of unencumbered assets. Management has identified a number of MHC mortgages, with higher interest rates as they do not qualify for CMHC insurance, that have potential to be paid out and added to the unencumbered asset pool. Subsequent to the end of Q3-2019, Killam completed a $100 million equity raise, with the funds allocated to repay Killam's outstanding line of credit and for acquisitions and developments. Following the close of the equity raise on November 4, 2019, Killam's debt metrics improved and its acquisition capacity increased to over $300 million.

Repositioning of Brewery Market Expected to Drive FFO and NAV Growth Beyond 2019
Killam continues to reposition its 158,000 square foot ("SF") commercial asset, the Brewery Market in Halifax, located adjacent Killam's 240-unit Alexander apartment property. Integrating these two properties is expected to both generate long-term growth in apartment rental rates and attract new commercial tenants. In early Q2-2019, planned tenant turnover at the Brewery Market provided Killam with an opportunity to redevelop the vacant space and attract a more diverse tenant base, at higher net rents, which complements the increased residential density in the area. Due to tenant turnover, earnings at the Brewery Market are expected to be $0.6 million lower in 2019 compared to 2018; however, this is expected to be more than offset by long-term NAV growth.

Stable Interest Rates Expected on Refinancings
Killam has apartment mortgage maturities of $24.7 million throughout the remainder of 2019, having a weighted average interest rate of 2.79%, which is slightly above the prevailing 5-year and 10-year CMHC-insured rates. MHC mortgages of $7.5 million are also maturing through to the end of 2019 at a weighted average interest rate in line with current market rates. Although interest rates may be consistent on refinancings, due to up-financing opportunities on mortgage renewals, interest expense on the refinanced portfolio is expected to increase.

The average interest rate on apartment mortgages maturing between 2020 and 2022 are also currently in line with existing market rates. Management has laddered its debt maturities and reduced its overall leverage ratios to lessen its exposure to potentially rising interest rates. Management plans to maintain its conservative debt ratios and continue to flatten its debt maturity schedule as mortgages mature.

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

PART III

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolios by market as at September 30, 2019:

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia				
Halifax	5,753	63	$39,628	35.3%
Sydney	139	2	$1,042	0.9%
	5,892	65	$40,670	36.2%
New Brunswick				
Moncton	1,756	33	$7,805	7.0%
Fredericton	1,529	23	$7,799	6.9%
Saint John	1,202	14	$4,504	4.0%
Miramichi	96	1	$473	0.4%
	4,583	71	$20,581	18.3%
Ontario				
Ottawa	1,216	9	$6,971	6.2%
London	523	5	$3,991	3.6%
Cambridge-GTA	818	6	$7,676	6.8%
	2,557	20	$18,638	16.6%
Newfoundland & Labrador				
St. John's	915	12	$5,201	4.6%
Grand Falls	148	2	$564	0.5%
	1,063	14	$5,765	5.1%
Prince Edward Island				
Charlottetown	986	19	$5,545	4.9%
Summerside	86	2	$433	0.4%
	1,072	21	$5,978	5.3%
Alberta				
Calgary	531	3	$3,441	3.1%
Edmonton	474	3	$3,744	3.3%
	1,005	6	$7,185	6.4%
Total Apartments	**16,172**	**197**	**$98,817**	**87.9%**

Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia	2,749	17	$3,479	3.1%
Ontario	2,284	17	$4,523	4.0%
New Brunswick (4)	170	1	$180	0.2%
Newfoundland & Labrador	224	2	$261	0.2%
Total MHCs	**5,427**	**37**	**$8,443**	**7.5%**

Commercial Portfolio (3)				
	Square Footage (1)	Number of Properties (1)	NOI ($) (2)	NOI (2) (% of Total)
Prince Edward Island	176,225	1	$629	0.6%
Ontario	297,000	1	$3,438	3.1%
Nova Scotia	254,000	5	$951	0.8%
New Brunswick (4)	33,215	1	$126	0.1%
Total Commercial	**760,440**	**8**	**$5,144**	**4.6%**
Total Portfolio		**242**	**$112,404**	**100.0%**

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

(2) For the nine months ended September 30, 2019.

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

(4) Killam's New Brunswick MHC community has seasonal operations which commence in mid-May annually. Killam's New Brunswick commercial property was acquired June 27, 2019 and the NOI reflects three months of income during the period.

Core Market Update

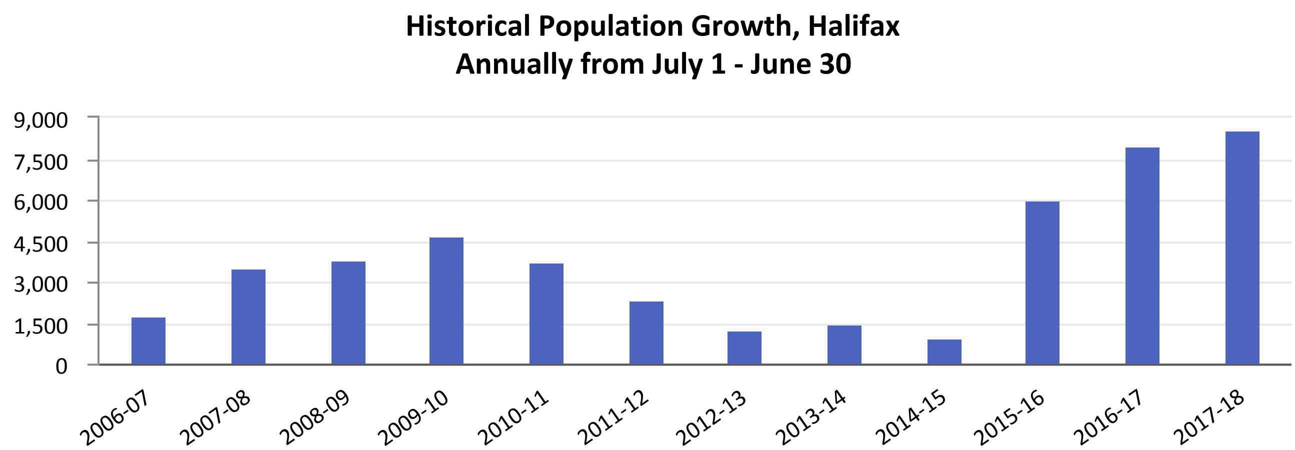
Halifax

Thirty-five percent of Killam's NOI is generated by its Halifax apartment properties. Halifax is the largest city in Atlantic Canada and is home to 18% of Atlantic Canadians. The city's rental market totals 50,300 units, with an additional 4,200 rental units currently under construction. According to CMHC's Fall 2019 Rental Market Outlook demand for apartments is expected to support new housing start activity. Halifax's diverse economy generates 55% of Nova Scotia's GDP and is home to 45% of the province's population. With six degree-granting universities and three large community college campuses, Halifax has approximately 41,000 students, including 6,700 international students. Halifax's employment base is diversified, with the largest sectors focused on public service, health care, education, and retail and wholesale trade. Halifax is home to the largest Canadian Forces Base by number of personnel, and the Department of National Defence is the city's largest single employer.

Halifax Partnership's quarterly economic snapshot for May 2019 highlights Halifax's GDP growth is forecasted to average 2.2% from 2019 to 2023, outpacing the Canadian expected average of 1.8% over the same period. Scotiabank's September 2018 Provincial Pulse report notes that in 2019, the Halifax Shipyard will complete its Arctic patrol ship program and begin preparations to build 15 combat vessels for the Canadian surface combatant fleet.

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

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

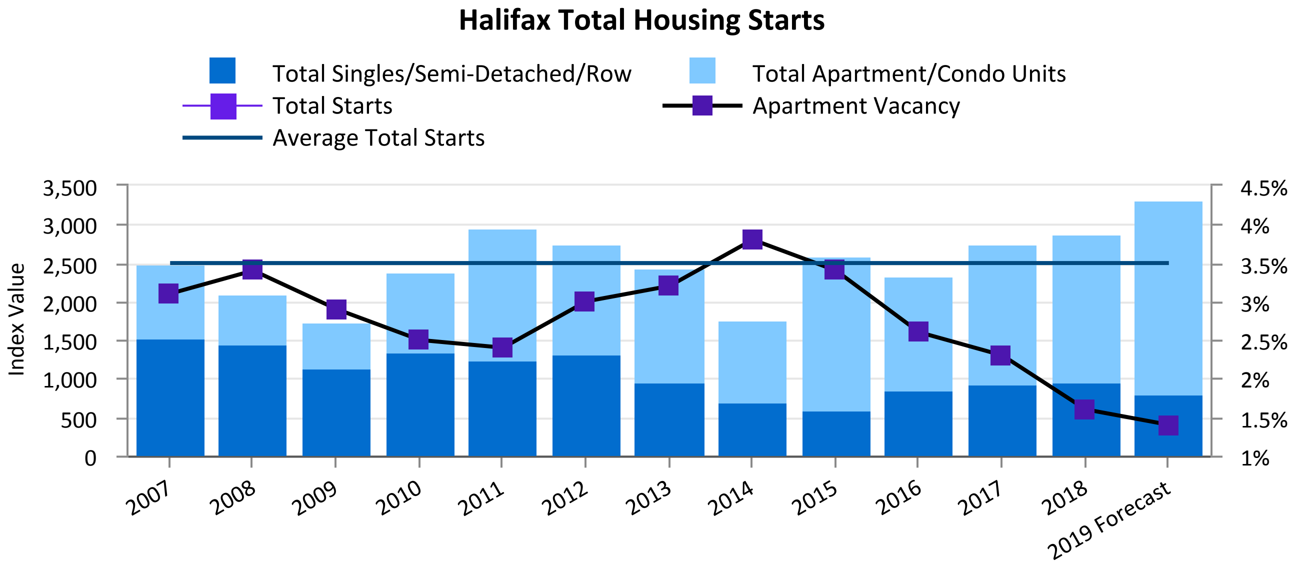


Source: Statistics Canada

According to statistics released in early 2019, Halifax is now among the fastest growing cities in Canada. Halifax's population growth in each of the last three years was 1.6%, 1.9% and 2.0%, primarily driven by immigration and urbanization. Over this three-year period, Statistics Canada has reported that Halifax's overall population grew by over 22,000 people. Halifax has seen an increase in international immigration, representing 63% of Halifax's population growth in 2018. A higher percentage of immigrants are locating to Atlantic Canada; Statistics Canada reports that 4.2% of new immigrants were received in Atlantic Canada in 2018, up from 2.2% in 2013.

According to CMHC's Fall 2019 Housing Market Outlook report, the city is projected to have between 2,250 and 2,500 multi-unit housing construction starts in 2019, which will be a 108 to 358-unit increase over 2018 and above the ten-year average of 1,170 per year. CMHC predicts high net migration and demand from an aging population switching to the rental market will support on-going demand for rental units. Additionally, rising home prices are expected to negatively impact affordability for first-time home buyers. CMHC forecasts apartment vacancy of 1.4% for October 2019, a 20 bps decrease from 1.6% in 2018. With expected population growth and strong demand from both young and older renters, CMHC forecasts that the Halifax market will remain solid, with vacancy rates forecast for 2020 and 2021, of 1.3% and 2.0%, well below the historic average.

The following chart summarizes Halifax's housing start activity from 2007 to 2019:



Source: CMHC

New Brunswick

Eighteen percent of Killam’s NOI is generated by apartments in New Brunswick's three major urban centres – Fredericton, Moncton and Saint John. Fredericton is the provincial capital and home to the province's largest university and a significant public sector workforce. Moncton is the province's largest city and is a transportation and distribution hub for Atlantic Canada. According to the Conference Board of Canada’s 2018 Autumn Provincial Outlook, large corporations are in the process of setting up customer and business service centres, which will drive economic growth. TD Bank announced in April 2018 that it was planning to create over 1,000 new jobs in the Moncton, Dieppe and Riverview areas over the next three years. As of July 2019, they have filled over 500 of these positions and are ahead of schedule in the process. Moncton and Fredericton each represent 7% of Killam’s NOI, with the Saint John market representing 4%.

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

St. John's, Newfoundland

Five percent of Killam’s NOI is generated in St. John's, Newfoundland. Higher oil production from the Hebron site as well as the ramp-up of major project investments such as Husky Energy’s White Rose project are expected to generate positive growth in 2019. In their 2018 Rental Market Report, CMHC reported a second straight year-over-year improvement in St. John's apartment occupancy, following eight years of rising vacancy. CMHC reported 6.3% vacancy in St. John's in October 2018, an improvement over 7.2% in October 2017. Recent population statistics from Statistics Canada show that St. John's population has been relatively flat over the last year.

Prince Edward Island

Killam has an 18% share of the Charlottetown market, the provincial capital and the economic center of Prince Edward Island. The Charlottetown apartment market accounted for 5% of Killam’s total NOI year-to-date. According to RBC’s December 2018 Provincial Outlook report, PEI’s economy continues to thrive on rapid population growth, strong job creation and brisk consumer-related activity. The provincial economy is expected to grow by 1.6% in 2019 and 1.2% in 2020. Following population growth of 1.8% in 2018, CMHC's 2018 Outlook expects the province’s population growth to continue through 2019 and 2020. CMHC reported Charlottetown vacancy of 0.2% in October 2018, 70 bps better than the 0.9% in October 2017. Statistics Canada reported that Charlottetown's population increased by 3.0%, well above the national average of 1.4%.

Ontario

Killam's Ontario apartment portfolio generated 17% of NOI year-to-date. The Ontario rental market is strong, as the province continues to experience economic and population growth attributable to high levels of international immigration. A widening gap between the cost of home ownership and renting is increasing the demand for rental stock. CMHC reported a 5% year-over-year increase in average rents for the overall Ontario rental market in October 2018. CMHC projects that vacancy rates will remain near 2.0% through 2019 driven by higher housing prices, international migration and an aging population, and that rental rates should increase by 4.7% over the same period. Overall, Ontario vacancy per CMHC was 1.8% for October 2018, up slightly from 1.6% in October 2017.

Ottawa

According to CMHC’s 2019 Housing Market Outlook, Ottawa's vacancy rates have continued to decline slightly. Vacancy in 2019 is forecasted to dip to 1.5%, from 1.6% in October 2018, and 1.7% in October 2017. Looking forward, CMHC forecasts vacancy will remain under 2.0%, increasing to 1.7% in 2020 and 1.9% in 2021. Rental demand has continued to be strong, supported by continued population growth, with an important driver being immigration. As of September 2018, immigration numbers rose 13% when compared to the same period in 2017 and Ottawa's population grew by 2.5% in 2018, up from 2.4% in 2017, one of the highest in Canada. The average rent for a two-bedroom unit rose by 5.3% year-over-year (to $1,370 per unit), as the 1.8% Ontario rent increase guideline encouraged property owners to look for larger increases on unit turns.

Kitchener-Waterloo-Cambridge

Known as Canada's Silicon Valley since the 1980s, the region saw vacancy rates decrease between 2014 and 2017 from 3.0% to a low of 1.9% in October 2017. In October 2018, CMHC reported an increase in overall vacancy to 2.9%; however, this was primarily driven by a large supply of new units in that period. CMHC is forecasting a decrease in vacancy to 2.7% for 2019 with a further decline in 2020 and 2021 to 2.5%. Rental demand is expected to continue to be strong in this region, fueled by population growth coupled with the increase in mortgage carrying costs, making it more difficult for individuals to purchase a home. The population of Kitchener-Waterloo-Cambridge increased by 2.6% in 2018, up from 2.1% in 2017.

London

The London primary rental market saw a small increase in overall vacancy, from 2.1% in 2018 to 2.2% in 2019 and CMHC's Housing Market Outlook, expects vacancy to remain relatively stable over the next two years. Population growth has been increasing in London, with 2.4% growth in 2018, compared to 2.2% in 2017 and 1.7% in 2016.

Greater Toronto Area

According to CMHC’s 2019 Outlook, home ownership costs in the Greater Toronto Area are keeping demand for rental units strong in both primary and secondary markets. CMHC reported a slight increase in vacancy from 1.1% in October 2018 to 1.2% in October 2019 and forecast this vacancy rate to remain stable over the next two years. Growth in rental rates and strong occupancy has led developers to begin building more rental units in the region; however, they are still significantly lower than condo starts.

Alberta

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

Calgary

In its 2019 Housing Market Report, CMHC reported 3.6% vacancy for Calgary, improved from 3.9% in 2018 and it is forecasted to continue to decline to 3.2% and 2.8% in 2020 and 2021 based on improving fundamentals and stronger population growth. Calgary's population grew by 2.3% in 2019, up from 1.8% in 2018.

Edmonton

In Edmonton, CMHC reported 3.9% vacancy, versus 5.3% in 2018, and an average monthly rental rate of $1,281 for a two-bedroom apartment, up 2.8% from a year earlier. The purpose built rental market is expected to tighten in Edmonton over the next two years, supported by the economic recovery in 2018, which helped to generate positive net-migration in the province. CMHC's 2019 Outlook expects vacancy to continue decreasing gradually in 2020 to 3.4%, and increase to 4.3% in 2021 as a result of increased rental supply. To-date, Killam's assets in Edmonton have not experienced this level of recovery.

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

PART IV

Q3-2019 Financial Overview

Consolidated Results

For the three months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$62,834**	$55,532	13.1%	**$51,713**	$49,890	3.7%	**$11,121**	$5,642	97.1%
Property operating expenses									
General operating expenses	**9,724**	8,800	10.5%	**8,164**	7,917	3.1%	**1,560**	883	76.7%
Utility and fuel expenses	**4,381**	3,838	14.1%	**3,778**	3,804	(0.7)%	**603**	34	N/A
Property taxes	**7,380**	6,410	15.1%	**5,660**	5,522	2.5%	**1,720**	888	93.7%
Total operating expenses	**$21,485**	$19,048	12.8%	**$17,602**	$17,243	2.1%	**$3,883**	$1,805	115.1%
NOI	**$41,349**	$36,484	13.3%	**$34,111**	$32,647	4.5%	**$7,238**	$3,837	88.6%
Operating margin %	**65.8%**	65.7%	10 bps	**66.0%**	65.4%	60 bps	**65.1%**	68.0%	(290) bps

For the nine months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$179,064**	$157,919	13.4%	**$150,569**	$145,495	3.5%	**$28,495**	$12,424	129.4%
Property operating expenses									
General operating expenses	**27,241**	24,454	11.4%	**23,032**	22,346	3.1%	**4,209**	2,108	99.7%
Utility and fuel expenses	**18,154**	16,067	13.0%	**16,270**	16,041	1.4%	**1,884**	26	N/A
Property taxes	**21,265**	18,575	14.5%	**17,027**	16,582	2.7%	**4,238**	1,993	112.6%
Total operating expenses	**$66,660**	$59,096	12.8%	**$56,329**	$54,969	2.5%	**$10,331**	$4,127	150.3%
NOI	**$112,404**	$98,823	13.7%	**$94,240**	$90,526	4.1%	**$18,164**	$8,297	118.9%
Operating margin %	**62.8%**	62.6%	20 bps	**62.6%**	62.2%	40 bps	**63.7%**	66.8%	(310) bps

For the three and nine months ended September 30, 2019, Killam recognized strong overall portfolio performance, revenue grew 13.1% and 13.4%, offset by total operating expense increases of 12.8% for the quarter and year-to-date due to inflationary pressures and increased size of Killam's overall portfolio. In aggregate, NOI increased 13.3% and 13.7% for the three and nine months ended September 30, 2019.

Same property results included properties owned during comparable 2019 and 2018 periods. Same property results represent 84.3% of the fair value of Killam's investment property portfolio as at September 30, 2019. Non-same property results include acquisitions, dispositions and developments completed in 2018 and 2019, commercial assets acquired for future residential development, as well as adjustments to normalize for non-operational revenues or expenses.

Same property revenue grew by 3.7% and 3.5% for the three and nine months ended September 30, 2019, as compared to the same periods of 2018. This growth is attributable to higher rental rates, improved occupancy and lower rental incentive offerings as a result of strong market fundamentals and execution of Killam's rent optimization program. Total same property operating expenses increased 2.1% and 2.5% for the three and nine months ended September 30, 2019. In the quarter, this expense growth was driven by a 3.1% increase in general operating costs and a 2.5% increase in property taxes as a result of higher reassessments, which Killam actively appeals whenever possible. These increases were slightly offset by a 0.7% decrease in utility and fuel expenses, as a result of reduced consumption from energy efficiency projects and a decrease in the inclusion of unit electricity as part of the monthly rent. Overall, same property NOI grew by 4.5% and 4.1% for the three and nine months ended September 30, 2019, as compared to 2018, and Killam's operating margin improved by 60 bps and 40 bps, respectively.

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

Apartment Results

For the three months ended September 30,

	Total			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$53,609**	$47,363	13.2%	**$46,298**	$44,684	3.6%	**$7,311**	$2,679	172.9%
Property operating expenses									
General operating expenses	**7,787**	7,095	9.8%	**6,934**	6,727	3.1%	**853**	368	131.8%
Utility and fuel expenses	**3,773**	3,269	15.4%	**3,421**	3,433	(0.3)%	**352**	(164)	314.6%
Property taxes	**6,447**	5,622	14.7%	**5,478**	5,332	2.7%	**969**	290	234.1%
Total operating expenses	**$18,007**	$15,986	12.6%	**$15,833**	$15,492	2.2%	**$2,174**	$494	340.1%
NOI	**$35,602**	$31,377	13.5%	**$30,465**	$29,192	4.4%	**$5,137**	$2,185	135.1%
Operating margin %	**66.4%**	66.2%	20 bps	**65.8%**	65.3%	50 bps	**70.3%**	81.6%	(1,130) bps

For the nine months ended September 30,

	Total			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$156,040**	$138,671	12.5%	**$137,515**	$132,805	3.5%	**$18,525**	$5,866	215.8%
Property operating expenses									
General operating expenses	**22,148**	20,181	9.7%	**19,942**	19,360	3.0%	**2,206**	821	168.7%
Utility and fuel expenses	**16,478**	14,495	13.7%	**15,280**	14,984	2.0%	**1,198**	(489)	345.0%
Property taxes	**18,597**	16,601	12.0%	**16,456**	16,009	2.8%	**2,141**	592	261.7%
Total operating expenses	**$57,223**	$51,277	11.6%	**$51,678**	$50,353	2.6%	**$5,545**	$924	500.1%
NOI	**$98,817**	$87,394	13.1%	**$85,837**	$82,452	4.1%	**$12,980**	$4,942	162.6%
Operating margin %	**63.3%**	63.0%	30 bps	**62.4%**	62.1%	30 bps	**70.1%**	84.2%	(1,410) bps

Apartment Revenue

Total apartment revenue for the three and nine months ended September 30, 2019, was $53.6 million and $156.0 million, an increase of 13.2% and 12.5% over the same periods in 2018. Revenue growth was augmented by contributions from recently acquired and developed properties, higher rental rates and improved occupancy.

Same property apartment revenue increased 3.6% and 3.5% for the three and nine months ended September 30, 2019, with strong leasing activity contributing to a 40 bps improvement in same property occupancy in the quarter and a 3.4% increase in average rental rates. As well, rental incentives for the three and nine months ended September 30, 2019, declined compared to the same periods of 2018, as fewer incentives were offered, given strong market conditions. Ancillary revenue also increased, including parking and laundry revenue.

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

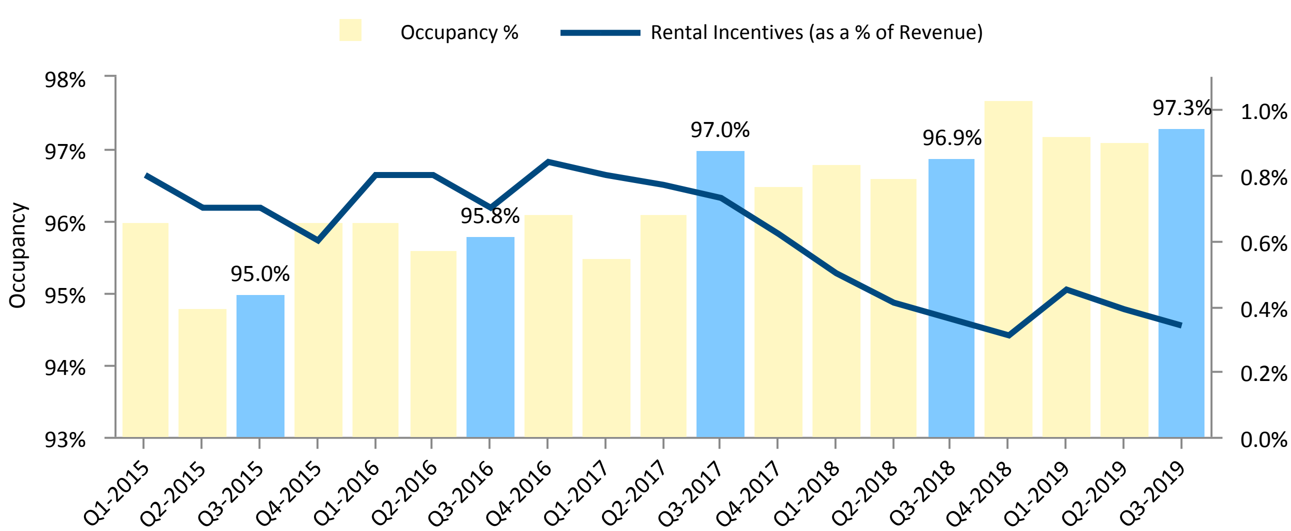
Apartment Occupancy Analysis by Core Market (% of Residential Rent) (1)

For the three months ended September 30,	# of Units	Total Occupancy 2019	2018	Change (bps)	Same Property Occupancy 2019	2018	Change (bps)
Nova Scotia							
Halifax	5,753	**98.3%**	97.4%	90	**98.3%**	97.5%	80
Ontario							
Ottawa (2)	1,216	**90.3%**	96.9%	(660)	**98.5%**	97.1%	140
London	523	**98.3%**	95.2%	310	**98.3%**	95.2%	310
Cambridge-GTA	818	**98.4%**	94.0%	440	**98.4%**	98.6%	(20)
New Brunswick							
Moncton	1,756	**98.4%**	97.8%	60	**98.5%**	97.8%	70
Fredericton	1,529	**97.0%**	97.9%	(90)	**96.8%**	97.9%	(110)
Saint John	1,202	**96.9%**	97.2%	(30)	**96.9%**	97.2%	(30)
Newfoundland and Labrador							
St. John's	915	**92.4%**	92.6%	(20)	**92.4%**	92.6%	(20)
Prince Edward Island							
Charlottetown	986	**99.6%**	99.3%	30	**99.5%**	99.3%	20
Alberta							
Calgary	531	**94.7%**	94.4%	30	**95.0%**	94.4%	60
Edmonton	474	**88.4%**	88.7%	(30)	**85.4%**	89.5%	(410)
Other Atlantic	469	**96.6%**	95.7%	90	**96.6%**	95.7%	90
Total Apartments (weighted average)	16,172	**96.7%**	96.6%	10	**97.3%**	96.9%	40

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

For discussion on changes in occupancy levels during the quarter, refer to page 19 of this MD&A under section "Apartment Same Property NOI by Region".

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



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

Average Rent Analysis by Core Market

As at September 30,

		Average Rent			Same Property Average Rent		
	# of Units	**2019**	2018	% Change	**2019**	2018	% Change
Nova Scotia							
Halifax	5,753	**$1,131**	$1,092	3.6%	**$1,086**	$1,047	3.7%
Ontario							
Ottawa	1,216	**$1,737**	$1,641	5.9%	**$1,684**	$1,632	3.2%
London	523	**$1,304**	$1,258	3.7%	**$1,304**	$1,258	3.7%
Cambridge-GTA	818	**$1,474**	$1,419	3.9%	**$1,455**	$1,397	4.2%
New Brunswick							
Moncton	1,756	**$910**	$862	5.6%	**$886**	$855	3.6%
Fredericton	1,529	**$1,011**	$956	5.8%	**$992**	$956	3.8%
Saint John	1,202	**$836**	$799	4.6%	**$836**	$799	4.6%
Newfoundland and Labrador							
St. John's	915	**$987**	$979	0.8%	**$987**	$979	0.8%
Prince Edward Island							
Charlottetown	986	**$1,008**	$1,003	0.5%	**$967**	$945	2.3%
Alberta							
Calgary	531	**$1,236**	$1,150	7.5%	**$1,203**	$1,158	3.9%
Edmonton	474	**$1,452**	$1,452	—%	**$1,458**	$1,462	(0.3)%
Other Atlantic	469	**$907**	$887	2.3%	**$907**	$887	2.3%
Total Apartments (weighted average)	16,172	**$1,114**	$1,069	4.2%	**$1,070**	$1,035	3.4%

Same Property Rental Increases – Tenant Renewal versus Unit Turn

Killam turns approximately 30%–35% of its units each year, with a declining trend in recent years. Upon turn, Killam will typically generate rental increases by raising rates to market and where market demand exists, by upgrading units for returns of 10%–15% on capital invested. Killam has increased its same property weighted average rental increases by 90 bps to 3.4% year-to-date 2019, compared to 2.5% for the same period of 2018. Given strong fundamentals and Killam's rent optimization program, there has been a notable increase in rental rates on unit turns. The following chart details the average rental increases realized upon turns and lease renewals on a same property basis:

	Unit Count			Same Property Rental Increases		
For the nine months ended September 30,	**2019**	2018	% Change	**2019**	2018	Change (bps)
Lease renewal	**9,810**	9,409	4.3%	**2.1%**	1.7%	40
Unit turn - regular	**3,300**	3,522	(6.3)%	**5.7%**	4.6%	110
Unit turn - repositioned	**236**	84	181.0%	**28.9%**	25.2%	370
Weighted average rental increase	**13,346**	13,015	2.5%	**3.4%**	2.5%	90

Apartment Expenses

Total operating expenses for the three and nine months ended September 30, 2019, were $18.0 million and $57.2 million, a 12.6% and 11.6% increase over the same periods of 2018, due primarily to incremental costs associated with recent acquisitions and developments, property tax increases, general operating cost increases and timing of utility costs. Killam's apartment operating margin increased by 20 bps quarter-over-quarter and 30 bps year-to-date, as higher occupancy and revenue optimization more than offset incremental operating costs.

Total same property operating expenses for the three and nine months ended September 30, 2019, were 2.2% and 2.6% higher than the same periods in 2018. Property tax expense increased 2.7% and 2.8% for the three and nine months ended September 30, 2019. Killam continues to appeal tax assessment increases whenever possible to minimize this impact. Killam also realized general operating expense increases of 3.1% and 3.0% for the three and nine months ended September 30, 2019, due to general inflationary cost pressures, an augmented leasing team and increased insurance premiums, partially offset by operational efficiencies. Utility costs were relatively flat in the quarter (following NOI normalization to the same property portfolio for changes in timing of utility bill recognition of $0.2 million in the quarter). In total, the same property margin improved by 50 bps and 30 bps during the three and nine months ended September 30, 2019.

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

Apartment Utility and Fuel Expenses - Same Property

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
Natural gas	**$590**	$553	6.7%	**$5,281**	$4,848	8.9%
Electricity	**1,397**	1,486	(6.0)%	**5,294**	5,464	(3.1)%
Water	**1,278**	1,214	5.3%	**3,661**	3,600	1.7%
Oil & propane	**144**	165	(12.7)%	**1,004**	1,035	(3.0)%
Other	**12**	15	(20.0)%	**40**	37	8.1%
Total utility and fuel expenses	**$3,421**	$3,433	(0.3)%	**$15,280**	$14,984	2.0%

Killam’s apartments are heated with natural gas (58%), electricity (32%), oil (6%), steam (2%), geothermal (2%) and propane (less than 1%). Electricity costs relate primarily to common areas, as unit electricity costs are typically paid by tenants, reducing Killam’s exposure to the majority of the 5,000 units heated with electricity. Fuel costs associated with central natural gas or oil-fired heating plants are paid by Killam.

Utility and fuel expenses accounted for approximately 22% of Killam’s total apartment same property operating expenses during the quarter and 30% year-to-date. Total same property utility and fuel expenses decreased 0.3% for the quarter and increased 2.0% for the nine months ended September 30, 2019.

Same property natural gas expense increased by 6.7% and 8.9% in the three and nine months ended September 30, 2019. The increased costs compared to the prior periods were primarily attributable to higher distribution rates and increases in commodity prices in Nova Scotia, New Brunswick and Ontario of 4.1%, 9.7% and 11.3%, respectively.

Electricity costs were 6.0% and 3.1% lower for the three and nine months ended September 30, 2019, primarily due to consumption savings from LED lighting retrofits, more than offsetting rising rates, as well as a reduction of unit electricity being included as part of a tenants monthly rent in certain regions given strong market fundamentals.

Water expense increased by 5.3% in Q3-2019 and 1.7% year-to-date, primarily due to municipal water rate increases across Killam's regions, partially offset by consumption savings from Killam's green initiatives. Since 2015, Killam has installed over 9,500 low-flow toilets, saving an estimated 600 million litres of water annually across the portfolio and generating approximately $1.2 million in water consumption savings.

Heating oil and propane costs decreased by 12.7% quarter-over-quarter and 3.0% for the nine months ended September 30, 2019, compared to the same period of 2018, as a result of lower consumption due to increased efficiencies from boiler upgrades and switching to natural gas at certain properties.

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

Apartment Same Property NOI by Region

Three months ended September 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Nova Scotia									
Halifax	**$17,953**	$17,083	5.1%	**($5,734)**	($5,504)	4.2%	**$12,219**	$11,579	5.5%
	17,953	17,083	5.1%	**(5,734)**	(5,504)	4.2%	**12,219**	11,579	5.5%
Ontario									
Ottawa	**2,953**	2,813	5.0%	**(928)**	(971)	(4.4)%	**2,025**	1,842	9.9%
London	**2,010**	1,886	6.6%	**(643)**	(626)	2.7%	**1,367**	1,260	8.5%
Cambridge-GTA	**3,086**	2,956	4.4%	**(991)**	(968)	2.4%	**2,095**	1,988	5.4%
	8,049	7,655	5.1%	**(2,562)**	(2,565)	(0.1)%	**5,487**	5,090	7.8%
New Brunswick									
Moncton	**4,562**	4,447	2.6%	**(1,867)**	(1,894)	(1.4)%	**2,695**	2,553	5.6%
Fredericton	**4,257**	4,171	2.1%	**(1,626)**	(1,624)	0.1%	**2,631**	2,547	3.3%
Saint John	**3,024**	2,934	3.1%	**(1,279)**	(1,255)	1.9%	**1,745**	1,679	3.9%
	11,843	11,552	2.5%	**(4,772)**	(4,773)	0.0%	**7,071**	6,779	4.3%
Newfoundland & Labrador									
St. John's	**2,525**	2,540	(0.6)%	**(743)**	(711)	4.5%	**1,782**	1,829	(2.6)%
	2,525	2,540	(0.6)%	**(743)**	(711)	4.5%	**1,782**	1,829	(2.6)%
Prince Edward Island									
Charlottetown	**2,594**	2,528	2.6%	**(933)**	(902)	3.4%	**1,661**	1,626	2.2%
	2,594	2,528	2.6%	**(933)**	(902)	3.4%	**1,661**	1,626	2.2%
Alberta									
Calgary	**858**	849	1.1%	**(269)**	(257)	4.7%	**589**	592	(0.5)%
Edmonton	**1,149**	1,186	(3.1)%	**(361)**	(328)	10.1%	**788**	858	(8.2)%
	2,007	2,035	(1.4)%	**(630)**	(585)	7.7%	**1,377**	1,450	(5.0)%
Other Atlantic locations	**1,327**	1,291	2.8%	**(459)**	(452)	1.5%	**868**	839	3.5%
	$46,298	$44,684	3.6%	**($15,833)**	($15,492)	2.2%	**$30,465**	$29,192	4.4%

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

Apartment Same Property NOI by Region

Nine months ended September 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Nova Scotia									
Halifax	**$53,162**	$50,771	4.7%	**($19,247)**	($18,295)	5.2%	**$33,915**	$32,476	4.4%
	53,162	50,771	4.7%	**(19,247)**	(18,295)	5.2%	**33,915**	32,476	4.4%
Ontario									
Ottawa	**8,747**	8,430	3.8%	**(2,783)**	(2,948)	(5.6)%	**5,964**	5,482	8.8%
London	**5,900**	5,614	5.1%	**(1,971)**	(1,924)	2.4%	**3,929**	3,690	6.5%
Cambridge-GTA	**9,217**	8,787	4.9%	**(2,949)**	(2,826)	4.4%	**6,268**	5,961	5.2%
	23,864	22,831	4.5%	**(7,703)**	(7,698)	0.1%	**16,161**	15,133	6.8%
New Brunswick									
Moncton	**13,557**	13,184	2.8%	**(6,136)**	(6,175)	(0.6)%	**7,421**	7,009	5.9%
Fredericton	**12,732**	12,266	3.8%	**(5,248)**	(5,188)	1.2%	**7,484**	7,078	5.7%
Saint John	**8,980**	8,671	3.6%	**(4,463)**	(4,413)	1.1%	**4,517**	4,258	6.1%
	35,269	34,121	3.4%	**(15,847)**	(15,776)	0.5%	**19,422**	18,345	5.9%
Newfoundland & Labrador									
St. John's	**7,516**	7,681	(2.1)%	**(2,316)**	(2,216)	4.5%	**5,200**	5,465	(4.8)%
	7,516	7,681	(2.1)%	**(2,316)**	(2,216)	4.5%	**5,200**	5,465	(4.8)%
Prince Edward Island									
Charlottetown	**7,739**	7,565	2.3%	**(3,097)**	(3,032)	2.1%	**4,642**	4,533	2.4%
	7,739	7,565	2.3%	**(3,097)**	(3,032)	2.1%	**4,642**	4,533	2.4%
Alberta									
Calgary	**2,533**	2,500	1.3%	**(800)**	(772)	3.6%	**1,733**	1,728	0.3%
Edmonton	**3,444**	3,530	(2.4)%	**(1,173)**	(1,134)	3.4%	**2,271**	2,396	(5.2)%
	5,977	6,030	(0.9)%	**(1,973)**	(1,906)	3.5%	**4,004**	4,124	(2.9)%
Other Atlantic locations	**3,988**	3,806	4.8%	**(1,495)**	(1,430)	4.5%	**2,493**	2,376	4.9%
	$137,515	$132,805	3.5%	**($51,678)**	($50,353)	2.6%	**$85,837**	$82,452	4.1%

Halifax

Halifax is Killam's largest rental market, contributing approximately 40% of apartment same property NOI for the three and nine months ended September 30, 2019. Same property apartment revenue increased 5.1% and 4.7% for the three and nine months ended September 30, 2019, due to a 3.7% increase in average rent and a 80 bps increase in occupancy to 98.3% in the quarter.

Total operating expenses for the three and nine months ended September 30, 2019, were 4.2% and 5.2% higher than the same periods of 2018. The increased expenses were driven by higher natural gas and fuel costs as a result of increased commodity pricing, higher property taxes and increased insurance premiums. The net impact was 5.5% and 4.4% growth in NOI for the three and nine months ended September 30, 2019.

Ontario

Killam's Ontario portfolio generated approximately 18.0% of apartment same property NOI for the three and nine months ended September 30, 2019. Revenue increased by 5.1% and 4.5% for the three and nine months ended September 30, 2019, driven by a 3.5% increase in average rental rates, improved occupancy in both Ottawa and London, decreased rental incentives and increased parking revenue.

Total operating expenses were down 0.1% for the quarter, as increased electricity and natural gas costs and higher insurance premiums were offset by savings in advertising and timing of maintenance costs. Year-to-date, total operating expenses were relatively flat compared to the same period of 2018, as decreased utility consumption and lower property taxes, as a result of successful tax appeals, mostly offset inflationary increases. In aggregate, same property NOI was 7.8% and 6.8% higher than the three and nine months ended September 30, 2018.

New Brunswick

Killam's apartments in Moncton, Fredericton and Saint John accounted for approximately 23% of apartment same property NOI for the three and nine months ended September 30, 2019. In aggregate, same property revenue increased 2.5% and 3.4% for the three and nine months ended September 30, 2019, following rental rate growth in Moncton, Fredericton and Saint John of 3.6%, 3.8% and 4.6%, respectively, despite slightly lower occupancy in Fredericton and Saint John during the quarter.

Total operating expenses were flat for the three months ended September 30, 2019, and only 0.5% higher for the nine months ended September 30, 2019, compared to the same periods in 2018. Increased insurance premiums and property taxes were partially offset by lower advertising and administration costs.

Newfoundland and Labrador

Killam's St. John's properties accounted for approximately 6% of apartment same property NOI for the three and nine months ended September 30, 2019. Same property revenue decreased 0.6% and 2.1% for the three and nine months ended September 30, 2019, as compared to the same periods of 2018. While rental rates have increased by 0.8%, occupancy was 20 bps lower during the quarter. Lower occupancy in the region is due to softness in the economy, driven by reduced activity in the offshore oil sector and declines in other natural resource sectors, on which the Newfoundland economy is heavily reliant.

Total operating expenses for the three and nine months ended September 30, 2019, were 4.5% higher than the same periods of 2018. The increase in operating expenses was primarily due to higher staffing costs with an expanded leasing team and increased advertising to mitigate the vacancy pressures. In addition, while electricity costs were down quarter-over-quarter, electricity costs year-over-year were up due to a 6.8% average increase in electricity rates in Newfoundland effective July 1, 2018. In aggregate, same property NOI was 2.6% and 4.8% lower for the three and nine months ended September 30, 2019.

Prince Edward Island

Killam's Charlottetown portfolio contributed approximately 5% of apartment same property NOI for the three and nine months ended September 30, 2019. Charlottetown achieved 2.6% and 2.3% revenue growth for the three and nine months ended September 30, 2019, as rental rates grew 2.3% and occupancy increased 20 bps to 99.5% during the quarter.

Total operating expenses for the three and nine months ended September 30, 2019 were 3.4% and 2.1% higher compared to 2018. The increase in operating expenses was primarily due to increases in contract services, water costs due to rising municipal water rates and increased insurance costs, slightly offset by lower repairs and maintenance expense. Overall, Charlottetown achieved 2.2% and 2.4% NOI growth for the three and nine months ended September 30, 2019, compared to the same periods in 2018.

Alberta

Killam's Calgary properties accounted for approximately 2% of apartment same property NOI for the three and nine months ended September 30, 2019. Calgary achieved same property revenue increases of 1.1% and 1.3% for the three and nine months ended September 30, 2019, compared to the same periods of 2018, due to rental rate growth of 3.9% and a 60 bps increase in occupancy, partially offset by an increase in rental incentives.

Total operating expenses for the three and nine months ended September 30, 2019 increased 4.7% and 3.6%, as a result of increased staffing and repairs and maintenance costs. Overall, Calgary saw a slight decrease in NOI of 0.5% for the three months ended September 30, 2019, but realized a 0.3% increase in NOI for the nine months ended September 30, 2019.

Killam's Edmonton portfolio accounted for 3% of apartment same property NOI for the three and nine months ended September 30, 2019. Same property revenues decreased 3.1% and 2.4% for the three and nine months ended September 30, 2019, as a result of a 0.3% reduction in rental rates and a 410 bps decrease in occupancy. The stabilization of the two Edmonton properties acquired in 2017, Waybury and Tisbury, has taken longer than expected as the Edmonton market continues to experience above average vacancy rates. Occupancy subsequent to quarter-end has exceeded 90%, and Management is targeting stabilized assets for early 2020.

Same property operating expenses increased 10.1% and 3.4% for the three and nine months ended September 30, 2019. The increase in operating expenses during the quarter was due to the addition of on-site leasing staff and increased landscaping costs and property tax assessments. Year-to-date, the variance relates to those items noted for the quarter, largely offset by lower repairs and maintenance costs, electricity and contract service costs. Overall, Edmonton saw decreased NOI of 8.2% and 5.2% for the three and nine months ended September 30, 2019.

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

MHC Results

For the three months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$5,639**	$5,239	7.6%	**$5,194**	$4,981	4.3%	**$445**	$258	N/A
Property operating expenses	**1,815**	1,768	2.7%	**1,679**	1,662	1.0%	**136**	106	N/A
NOI	**$3,824**	$3,471	10.2%	**$3,515**	$3,319	5.9%	**$309**	$152	N/A
Operating margin %	**67.8%**	66.3%	150 bps	**67.7%**	66.6%	110 bps	**69.4%**	—%	—

For the nine months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$13,181**	$12,281	7.3%	**$12,366**	$12,017	2.9%	**$815**	$264	N/A
Property operating expenses	**4,738**	4,486	5.6%	**4,371**	4,335	0.8%	**367**	151	N/A
NOI	**$8,443**	$7,795	8.3%	**$7,995**	$7,682	4.1%	**$448**	$113	N/A
Operating margin %	**64.1%**	63.5%	60 bps	**64.7%**	63.9%	80 bps	**55.0%**	—%	—

The MHC business generated 7.5% of Killam's NOI for the nine months ended September 30, 2019. The MHC portfolio generates its highest revenues and NOI during the second and third quarters of each year due to the contribution from its eight seasonal communities that earn approximately 60% of their NOI between July and September.

MHC same property revenue increased 4.3% and 2.9% for the three and nine months ended September 30, 2019, compared to the same periods in 2018. Rents rose by 2.8%, to $260 per site from $253 per site in September 2018, due primarily to rental increases at permanent communities as well as strong revenue growth at the seasonal communities. Occupancy for Q3-2019 was 97.8%, compared to 98.0% in Q3-2018.

Total same property expenses increased modestly by 1.0% and 0.8% for the three and nine months ended September 30, 2019, primarily due to increases in repairs and maintenance and contract services costs, partially offset by lower utility costs and property taxes. Overall, the MHC portfolio generated same property NOI growth of 5.9% and 4.1% for the three and nine months ended September 30, 2019.

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

Commercial Results

For the three months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$3,586**	$2,930	22.4%	**$220**	$225	(2.2)%	**$3,366**	$2,705	24.4%
Property operating expenses	**1,663**	1,295	28.4%	**89**	90	(0.9)%	**1,574**	1,205	30.6%
NOI	**$1,923**	$1,635	17.6%	**$131**	$135	(3.0)%	**$1,792**	$1,500	19.5%

For the nine months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$9,843**	$6,967	41.3%	**$688**	$673	2.2 %	**$9,155**	$6,294	45.5%
Property operating expenses	**4,699**	3,333	41.0%	**280**	281	(0.4)%	**4,419**	3,052	44.8%
NOI	**$5,144**	$3,634	41.6%	**$408**	$392	4.1 %	**$4,736**	$3,242	46.1%

Killam's commercial property portfolio contributed $5.1 million, or 4.6%, of Killam's total NOI for the nine months ended September 30, 2019. Killam's commercial property portfolio consists of eight properties totaling 760,440 SF located in four of Killam's core markets. The majority of Killam's commercial properties are not included in the same property results as they were recently acquired or are slated for redevelopment and not operating as stabilized properties. Commercial occupancy was 86.9% during the quarter and 89.6% year-to-date, compared to 99.4% and 98.8% for the same periods of 2018. The decrease in occupancy is primarily due to the redevelopment of the 158,000 SF Brewery Market in Halifax, resulting in increased vacancy during the renovation process.

In early Q2-2019, planned tenant turnover at the Brewery Market provided Killam with an opportunity to redevelop the vacant space and attract a more diverse tenant base that complements the increased residential density in the area. Due to this turnover, earnings at the Brewery Market are expected to be $0.6 million lower in 2019 compared to 2018; however, this is expected to be more than offset by long-term NAV growth. Year-to-date NOI at the Brewery Market is down $0.4 million ($0.3 million in Q3-2019). Following the lease-up of the renovated space at the Brewery Market, Management expects NOI to increase by an annualized amount of $0.3 million, or 15% to 20%, from pre-renovated levels.

Year-to-date, Killam has expanded its commercial portfolio with two acquisitions. During May 2019, Killam completed the acquisition of a 50% interest in the Charlottetown Mall, a grocery-anchored enclosed retail complex totaling 352,450 SF located in Charlottetown, PE. This grocery-anchored plaza was 89.5% occupied during the quarter. Killam is in the process of preparing a redevelopment plan for the property, which is a 32-acre commercial site with future apartment development opportunities for approximately 300 units.

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

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

PART V

Other Income and Expenses

Other Income

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
	$536	$237	126.2%	**$1,002**	$749	33.8%

Other income includes property management fees for jointly held properties, interest on bank balances, net revenue associated with the sale of homes in Killam's MHC segment and net insurance proceeds. The 126.2% and 33.8% increase for the three and nine months ended September 30, 2019, was due to net insurance proceeds received related to a fire that occurred in July 2019 at a 29-unit apartment building.

Financing Costs

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
Mortgage, loan and construction loan interest	**$10,711**	$9,666	10.8%	**$31,140**	$27,465	13.4%
Interest on credit facilities	**568**	94	504.3%	**1,106**	556	98.9%
Interest on exchangeable units	**685**	609	12.5%	**2,042**	1,826	11.8%
Amortization on deferred financing costs	**720**	628	14.6%	**2,356**	1,675	40.7%
Amortization of fair value adjustments on assumed debt	**34**	28	21.4%	**108**	67	61.2%
Amortization of loss on interest rate hedge	**—**	7	N/A	**—**	37	N/A
Unrealized loss (gain) on derivative asset	**(11)**	(86)	(87.2)%	**302**	(116)	360.3%
Interest on lease liabilities	**72**	—	N/A	**217**	—	N/A
Capitalized interest	**(451)**	(908)	(50.3)%	**(1,735)**	(2,544)	(31.8)%
	$12,328	$10,038	22.8%	**$35,536**	$28,966	22.7%

Total financing costs increased $2.3 million, or 22.8%, and $6.6 million, or 22.7%, for the three and nine months ended September 30, 2019, as compared to the same periods of 2018.

Mortgage, loan and construction loan interest expense was $10.7 million for the three months ended September 30, 2019, an increase of $1.0 million, or 10.8%, compared to the same period of 2018, while year-to-date mortgage interest increased $3.7 million, or 13.4%. Killam's mortgage, loan and construction loan liability balance increased by $137.9 million over the past twelve months as Killam refinanced its existing portfolio's maturing mortgages, obtained financing for acquisitions and developments and repaid certain variable rate debt. The average interest rate on refinancings for the nine months ended September 30, 2019, was 2.69%, 20 bps lower than the average interest rate on expiring debt.

Deferred financing costs include mortgage assumption fees, application fees and legal costs related to financings and refinancings. These costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. Deferred financing amortization costs increased 14.6% and 40.7% for the three and nine months ended September 30, 2019, following mortgage refinancings and debt related to property acquisitions over the past twelve months. Based on the current portfolio, normalized deferred financing costs are expected to be approximately $0.7 million per quarter. This expense may fluctuate with refinancings.

Capitalized interest decreased $0.5 million and $0.8 million for the three and nine months ended September 30, 2019, compared to the same periods of 2018. Capitalized interest will vary depending on the number of development projects underway and their stages in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

Financing costs associated with the lease liabilities were $72.0 thousand for the quarter. This interest expense relates to the new requirements under IFRS 16 to record lease obligations at their present value and recognize interest expense over the life of the right-of-use asset. Refer to Note 8 of the condensed consolidated interim financial statements for the three and nine months ended September 30, 2019, for further details.

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

Depreciation Expense

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
	$174	$238	(26.9)%	**$499**	$693	(28.0)%

Depreciation expense relates to Killam’s head office building, vehicles, heavy equipment, office furniture, fixtures and computer equipment. Although the vehicles and equipment are used at various properties, they are not considered investment properties and are depreciated for accounting purposes. The decrease in depreciation expense for the three and nine months ended September 30, 2019, compared to the same periods in 2018, was primarily due to the timing of depreciation of software costs.

Administration Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
Administration	**$3,674**	$3,712	(1.0)%	**$10,974**	$10,594	3.6%
As a percentage of total revenues	**5.8%**	6.7%	(90) bps	**6.1%**	6.7%	(60) bps

Administration expenses include expenses that are not specific to individual properties, including TSX related costs, management and head office salaries and benefits, marketing costs, office equipment leases, professional fees and other head office and regional office expenses.

For the three months ended September 30, 2019, total administration expenses decreased by $38.0 thousand, or 1.0%. For the nine months ended September 30, 2019, administration expenses increased $0.4 million, or 3.6%, compared to the comparable period of 2018, due to increased Yardi platform costs, higher compensation and training costs as a result of increased staffing related to portfolio growth, and higher restricted trust unit ("RTU") expense related to stronger REIT performance. Administration expense as a percentage of total revenues is 5.8% for Q3-2019, 90 bps lower than Q3-2018.

Fair Value Adjustments

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
Investment properties	**$35,846**	$14,685	144.1%	**$133,681**	$99,758	34.0%
Deferred unit-based compensation	**(619)**	(698)	11.3%	**(1,772)**	(641)	(176.4)%
Exchangeable units	**(5,152)**	(4,393)	(17.3)%	**(16,988)**	(7,299)	(132.7)%
	$30,075	$9,594	213.5%	**$114,921**	$91,818	25.2%

Killam recognized $35.8 million in fair value gains on investment properties in Q3-2019, compared to $14.7 million in fair value gains for Q3-2018. Year-to-date, Killam has realized $133.7 million in fair value gains on investment property, recognizing the strength of the accelerated revenue growth achieved over the period and overall strong operating performance in Killam's core markets, as well as cap-rate compression in both Killam's apartment and MHC portfolios. Gains in the quarter were partially offset by a fair value write down of $6.0 million to reflect the impact of a fire at a 29-unit building in Charlottetown in July 2019. The property was insured and is being rebuilt.

RTUs governed by Killam's RTU Plan are awarded to certain members of Management as a portion of their compensation. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs. This aligns the interests of Management and the Trustees with those of unitholders. For the three months ended September 30, 2019, there was an unrealized fair value adjustment of $0.6 million, compared to a $0.7 million adjustment in Q3-2018. For the nine months ended September 30, 2019, there was an unrealized fair value adjustment of $1.8 million, versus a $0.6 million adjustment in the nine months ended September 30, 2018, due to changes in the market price of the underlying Killam trust units.

Distributions paid on exchangeable units are consistent with distributions paid to Killam’s unitholders. The exchangeable units are redeemable on a one-for-one basis into trust units at the option of the holder. The fair value of the exchangeable units is based on the trading price of Killam’s trust units. For the three months ended September 30, 2019, there was an unrealized adjustment on remeasurement of $5.2 million, compared to an unrealized adjustment of $4.4 million in the same period of 2018. Year-to-date, there was an unrealized adjustment of $17.0 million, compared to an unrealized adjustment of $7.3 million in the same period of 2018, due to an appreciation in the market price of Killam's trust units.

Loss on Disposition

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
	$247	$—	N/A	**$1,241**	$183	578.1%

During the third quarter, Killam disposed of a development site in Edmonton, AB. Killam also disposed of two apartment properties located in Ottawa in Q2-2019. The loss on disposition in investment properties for the three and nine months ended September 30, 2019 represents the difference between the proceeds from disposition compared to the fair value of the properties less the carrying costs of the related mortgages, as well as deferred financing fees, professional fees and any other directly attributable costs.

Deferred Tax Expense

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
	$8,698	$5,207	67.0%	**$23,358**	$20,055	16.5%

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

Killam's deferred tax expense increased $3.5 million and $3.3 million for the three and nine months ended September 30, 2019, compared to the same period of 2018, primarily due to the changes in fair value gains on investment properties.

PART VI

Per Unit Calculations

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

	Weighted Average Number of Units (000s)						Outstanding Number of Units (000s) as at September 30,
	Three months ended September 30,			Nine months ended September 30,			
	2019	2018	% Change	**2019**	2018	% Change	**2019**
Trust units	**91,692**	85,124	7.7%	**90,262**	82,342	9.6%	**91,819**
Exchangeable units	**4,154**	3,812	9.0%	**4,154**	3,854	7.8%	**4,154**
Basic number of units	**95,846**	88,936	7.8%	**94,416**	86,196	9.5%	**95,972**
Plus:							
Units under RTU plan	**198**	240	(17.5)%	**196**	236	(16.9)%	**—**
Diluted number of units	**96,044**	89,176	7.7%	**94,612**	86,432	9.5%	**95,972**

Funds from Operations

FFO are recognized as an industry-wide standard measure of real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. Killam calculates FFO in accordance with the REALpac definition except for the deduction of income recorded for accounting purposes related to insurance proceeds. Notwithstanding the foregoing, FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. FFO for the three and nine months ended September 30, 2019 and 2018 are calculated as follows:

	Three months ended September 30,			**Nine months ended September 30,**		
	2019	2018	% Change	**2019**	2018	% Change
Net income	**$46,839**	$27,120	72.7%	**$156,719**	$130,899	19.7%
Fair value adjustments	**(30,075)**	(9,594)	213.5%	**(114,921)**	(91,818)	25.2%
Loss on disposition	**235**	—	N/A	**1,229**	183	571.6%
Non-controlling interest	**(5)**	1	(600.0)%	**(14)**	(12)	16.7%
Internal commercial leasing costs	**79**	66	19.7%	**238**	66	260.6%
Deferred tax expense	**8,698**	5,207	67.0%	**23,358**	20,055	16.5%
Interest expense on exchangeable units	**685**	609	12.5%	**2,042**	1,826	11.8%
Net insurance proceeds	**(268)**	—	N/A	**(268)**	—	N/A
Unrealized loss (gain) on derivative liability	**(11)**	(86)	(87.2)%	**302**	(116)	360.3%
Depreciation on owner-occupied building	**38**	32	18.8%	**108**	115	(6.1)%
Change in principal related to lease liabilities	**32**	—	N/A	**95**	—	N/A
FFO	**$26,247**	$23,355	12.4%	**$68,888**	$61,198	12.6%
FFO unit - basic	**$0.27**	$0.26	3.8%	**$0.73**	$0.71	2.8%
FFO unit - diluted	**$0.27**	$0.26	3.8%	**$0.73**	$0.71	2.8%
Weighted average number of units - basic (000s)	**95,846**	88,936	7.8%	**94,416**	86,196	9.5%
Weighted average number of units - diluted (000s)	**96,044**	89,176	7.7%	**94,612**	86,432	9.5%

Killam earned FFO of $26.2 million, or $0.27 per unit (diluted), for the three months ended September 30, 2019, compared to $23.4 million, or $0.26 per unit (diluted), for the three months ended September 30, 2018. FFO growth is primarily attributable to contributions from acquisitions and completed developments ($2.7 million) and same property NOI growth ($1.1 million). These increases were offset by higher interest expense ($0.8 million), higher deferred financing costs ($0.1 million) and a 7.7% increase in the weighted average number of units outstanding from an equity raises completed in March 2019.

Killam earned FFO of $68.9 million, or $0.73 per unit (diluted), for the nine months ended September 30, 2019, compared to $61.2 million, or $0.71 per unit (diluted), for the nine months ended September 30, 2018. FFO growth is primarily attributable to contributions from acquisitions and completed developments ($7.1 million) and same property NOI growth ($2.9 million). These increases were partially offset by higher interest expense ($1.4 million), higher deferred financing costs ($0.7 million) and a 9.5% increase in the number of weighted average number of units outstanding.

Adjusted Funds from Operations

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

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

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

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
FFO	**$26,247**	$23,355	12.4%	**$68,888**	$61,198	12.6%
Maintenance capital expenditures						
Apartments	**(3,525)**	(3,304)	6.7%	**(10,410)**	(9,842)	5.8%
MHCs	**(448)**	(396)	13.1%	**(1,343)**	(1,171)	14.7%
Commercial	**(133)**	(96)	38.5%	**(341)**	(193)	76.7%
Commercial straight-line rent adjustment	**(111)**	(65)	70.8%	**(322)**	(110)	192.7%
Internal commercial leasing costs	**(63)**	(48)	31.3%	**(386)**	(48)	704.2%
AFFO	**$21,967**	$19,446	13.0%	**$56,086**	$49,834	12.5%
AFFO per unit - basic	**$0.23**	$0.22	4.5%	**$0.59**	$0.58	1.7%
AFFO per unit - diluted	**$0.23**	$0.22	4.5%	**$0.59**	$0.58	1.7%
AFFO payout ratio - diluted	**72%**	73%	(100) bps	**83%**	83%	— bps
AFFO payout ratio - rolling 12 months [(1)]	**84%**	83%	100 bps			
Weighted average number of units - basic (000s)	**95,846**	88,936	7.8%	**94,416**	86,196	9.5%
Weighted average number of units - diluted (000s)	**96,044**	89,176	7.7%	**94,612**	86,432	9.5%

(1) Based on Killam's annual distribution of $0.65165 for the rolling 12-month period ended September 30, 2019, and $0.6317 for the 12-month period ended September 30, 2018. The calculation uses a maintenance capex reserve of $900 for the rolling 12 months ended September 30, 2019, and an average of $900 for the rolling 12 months ended September 30, 2018.

The payout ratio of 72% in Q3-2019, compared to the rolling 12-month payout ratio of 84%, corresponds with the seasonality of Killam's business. Killam's first quarter typically has the highest payout ratio due to the lower operating margin in the period attributable to higher heating costs in the winter months. In addition, the MHC portfolio generates its highest revenues and NOI during the second and third quarters of the year due to the contribution from its seasonal communities that generate approximately 60% of their NOI between July and September each year.

The improvement in the AFFO payout ratio during the quarter is attributable to higher AFFO per unit growth of 4.5%, compared to the 3.1% distribution increase announced during Q1-2019.

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

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

Adjusted Cash Flow from Operations

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

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

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

	Three months ended September 30,			**Nine months ended September 30,**		
	2019	2018	% Change	**2019**	2018	% Change
Cash provided by operating activities	**$38,611**	$27,987	38.0%	**$74,054**	$71,925	3.0%
Adjustments:						
Changes in non-cash working capital not indicative of sustainable cash flows	**(11,620)**	(3,118)	272.7%	**(4,135)**	(7,582)	(45.5)%
Maintenance capital expenditures						
Apartments	**(3,525)**	(3,304)	6.7%	**(10,410)**	(9,842)	5.8%
MHCs	**(448)**	(396)	13.1%	**(1,343)**	(1,171)	14.7%
Commercial	**(133)**	(96)	38.5%	**(341)**	(193)	76.7%
Internal commercial leasing costs	**63**	66	(4.5)%	**386**	66	484.8%
Amortization of deferred financing costs	**(720)**	(628)	14.6%	**(2,356)**	(1,675)	40.7%
Interest expense related to lease liability	**32**	—	N/A	**95**	—	N/A
Non-controlling interest	**(5)**	1	(600.0)%	**(14)**	(12)	16.7%
ACFO	**$22,255**	$20,512	8.5%	**$55,936**	$51,516	8.6%
Distributions declared (1)	**16,032**	14,414	11.2%	**47,073**	41,818	12.6%
Excess of ACFO over cash distributions	**$6,223**	$6,098	2.0%	**$8,863**	$9,698	(8.6)%
ACFO payout ratio - diluted (2)	**72%**	70%	200 bps	**84%**	81%	300 bps

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

Killam's ACFO payout ratio is 72% and 84% for the three and nine months ended September 30, 2019, an increase of 200 bps and 300 bps from the payout ratio for the three and nine months ended September 30, 2018. Similarly to the AFFO payout ratio, Killam's first quarter typically has the highest ACFO payout ratio due to the lower operating margin in the period attributable to higher heating costs in the winter months and the fact the MHC portfolio generates its highest revenues and NOI during the second and third quarters of the year.

Cash Provided by Operating Activities and Distributions Declared

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
Net income	**$46,839**	$27,120	**$156,719**	$130,899
Cash provided by operating activities	**$38,611**	$27,987	**$74,054**	$71,925
Total distributions declared	**$16,032**	$14,414	**$47,073**	$41,818
Excess of net income over total distributions declared	**$30,807**	$12,706	**$109,646**	$89,081
Excess of net income over net distributions paid	**$35,527**	$16,286	**$122,384**	$100,131
Excess of cash provided by operating activities over total distributions declared	**$22,579**	$13,573	**$26,981**	$30,107

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

PART VII

Investment Properties

As at

	September 30, 2019	December 31, 2018	% Change
Investment properties	**$3,055,756**	$2,701,502	13.1%
Investment properties under construction ("IPUC")	**37,979**	37,163	2.2%
Land for development	**37,011**	61,028	(39.4)%
	$3,130,746	$2,799,693	11.8%

Continuity of Investment Properties

As at

	September 30, 2019	December 31, 2018	% Change
Balance, beginning of period	**$2,701,502**	$2,171,372	24.4%
Impact of change in accounting policy	**7,115**	—	N/A
Acquisition of properties	**139,958**	248,186	(43.6)%
Transfer to assets held for sale	**(15,099)**	—	N/A
Transfer from IPUC	**36,506**	104,283	(65.0)%
Capital expenditures	**49,841**	46,488	7.2%
Fair value adjustment - Apartments	**108,233**	118,601	(8.7)%
Fair value adjustment - MHCs	**30,084**	5,271	470.7%
Fair value adjustment - Other	**(2,384)**	7,301	(132.7)%
Balance, end of period	**$3,055,756**	$2,701,502	13.1%

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

Capitalization Rates

	September 30, 2019			December 31, 2018			September 30, 2018		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**3.50%**	**8.00%**	**4.99%**	3.75%	8.00%	5.15%	3.75%	8.00%	5.19%
MHCs	**5.00%**	**6.50%**	**5.63%**	5.75%	8.00%	6.76%	5.75%	8.00%	6.77%

Killam's weighted average cap-rate for its apartment and MHC portfolios at September 30, 2019 was 4.99% and 5.63%, a decrease of 16 bps and 113 bps compared to December 31, 2018. The cap-rate compression relates to continued downward pressure on cap-rates across the industry, most notably in Ontario and Halifax, and recent comparable transactions for MHC properties.

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

2019 Acquisitions - Investment Properties

						Purchase Price [1]	
Property	**Location**	**Acquisition Date**	**Ownership Interest**	**Property Type**	**Units/SF**	**Income-producing Properties**	**Land for Development**
9 Dietz	Waterloo, ON	15-Jan-19	100%	Development land	—	**$—**	**$1,500**
11 Harold Doherty	Fredericton, NB	18-Apr-19	100%	Apartment	59	**8,100**	**—**
Charlottetown Mall	Charlottetown, PE	17-May-19	50%	Retail	176,225	**23,750**	**—**
Grid 5 [2]	Calgary, AB	14-Jun-19	100%	Apartment	154	**42,700**	**—**
Silver Spear [2]	Mississauga, ON	14-Jun-19	100%	Apartment & development land	100	**27,200**	**3,600**
Dieppe Village [3]	Moncton, NB	27-Jun-19	100%	Apartment & retail	127	**28,000**	**900**
59 Irvin	Kitchener, ON	21-Jun-19	100%	Development land	—	**—**	**150**
150 Lian	Fredericton, NB	20-Aug-19	100%	Apartment	48	**9,250**	**—**
Total Acquisitions						**$139,000**	**$6,150**

[1] Purchase price does not include transaction costs.

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

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

11 Harold Doherty

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

Charlottetown Mall

On May 17, 2019, Killam completed its previously announced acquisition of a 50% interest in the Charlottetown Mall, located in Charlottetown, PE, from RioCan REIT ("RioCan") at a purchase price of $23.8 million for an all-cash yield of 6.7%. This stabilized, grocery-anchored, enclosed mall is a 352,448 SF retail complex and is the dominant shopping centre in Prince Edward Island. It is located on 32 acres with future multi-family development opportunities of up to 300 units. The retail portion of the property will continue to be managed by RioCan, with the future residential project being managed by Killam.

Grid 5 / Silver Spear

On June 14, 2019, Killam acquired its joint venture partner's 50% interest in Grid 5 (Calgary, AB) and 1355 Silver Spear (Mississauga, ON) plus the development site located adjacent to the Silver Spear property. The purchase price includes $3.6 million for the development site and $69.9 million for the remaining 50% interest in the two apartment buildings. The purchase price of the apartments represents a cap-rate of approximately 4.2%.

Dieppe Village

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

150 Lian

On August 20, 2019, Killam completed the acquisition of a 48-unit apartment building in Fredericton, NB, for $9.3 million, representing an all-cash yield of 5.6%.

2019 Dispositions - Investment Properties

						Sale Price [1]	
Property	**Location**	**Disposition Date**	**Ownership Interest**	**Property Type**	**Units**	**Income-producing Properties**	**Land for Development**
350 Mayfield	Ottawa, ON	15-May-19	100%	Apartment	61	**$6,728**	$—
50 Selkirk	Ottawa, ON	15-May-19	100%	Apartment	75	**8,272**	—
Cameron Heights	Edmonton, AB	16-Aug-19	100%	Development land	—	—	**4,401**
Total Dispositions						**$15,000**	**$4,401**

[1] Sale price does not include transaction costs. Outstanding mortgages and loans were repaid in the amount of $8.9 million with proceeds from the dispositions.

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

Investment Properties Under Construction

As at			
	September 30, 2019	December 31, 2018	% Change
Balance, beginning of period	**$37,163**	$80,226	(53.7)%
Fair value adjustment	**—**	4,919	(100.0)%
Capital expenditures	**21,808**	53,336	(59.1)%
Interest capitalized	**464**	1,692	(72.6)%
Transfer to investment properties	**(36,506)**	(104,283)	(65.0)%
Transfer from land for development	**15,050**	1,273	1,082.2%
Balance, end of period	**$37,979**	$37,163	2.2%

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

Gloucester City Centre

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

The first phase of the development, Frontier, a 23-storey tower containing 228 units, was completed on time and on budget in June 2019. The total cost of the development of Phase I was approximately $75.0 million ($37.5 million for Killam's 50% interest), resulting in an all-cash yield of approximately 5.25%. The building is currently 90% leased. Construction of Latitude, the second phase of the development, containing 209 units, broke ground during Q2-2019 and is expected to take 24 months to complete. The total cost is budgeted at $87.0 million ($43.5 million for Killam's 50% interest). To date, Killam has invested $9.1 million in Phase II.

Shorefront

On September 10, 2018, Killam acquired land to commence construction on the 78-unit, five-storey Shorefront development in Charlottetown, PE. The project budget is approximately $22.0 million ($282,000/unit), resulting in an expected all-cash yield of approximately 5.6%, a 60–100 bps premium over the market cap-rate of a similar quality asset. The development broke ground in October 2018 and is scheduled for completion in mid-2020. As at September 30, 2019, Killam has invested $10.5 million in the project.

The Kay

During 2018, Killam received final approval from the city of Mississauga to proceed with The Kay development on land adjacent to its existing 199-unit building. The budget for this development is $56.0 million, or $437,500 per door, with an anticipated all-cash yield of 5.0%, approximately a 125–175 bps premium over the market cap-rate for a similar quality asset. The development broke ground during the third quarter and is expected to take 24 months to complete.

10 Harley Street

During Q3-2019, there was a fire at a three-storey, 29-unit apartment building located in Charlottetown resulting in loss of the building. Killam has commenced reconstruction of the building and increased the size to four stories and 38 units. The budget for the redevelopment project is approximately $10.0 million ($264,000/unit). Insurance proceeds associated with the loss are expected to cover a significant portion of the reconstruction costs.

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

Land for Development

As at

	September 30, 2019	December 31, 2018	% Change
Balance, beginning of period	**$61,028**	$28,165	116.7%
Fair value adjustment	**(2,165)**	1,800	(220.3)%
Capital expenditures	**4,128**	3,972	3.9%
Interest capitalized	**1,271**	1,477	(13.9)%
Acquisitions	**6,200**	28,347	(78.1)%
Dispositions	**—**	(1,460)	(100.0)%
Transfer to IPUC	**(15,050)**	(1,273)	1,082.2%
Transfer to held for sale	**(18,401)**	—	N/A
Balance, end of period	**$37,011**	$61,028	(39.4)%

During Q3-2019 Killam disposed of land held for development in Edmonton, AB. In addition, Killam's 40% interest in a development site in Calgary is currently being marketed and was transferred to assets held for sale during Q2-2019.

Killam has a robust development pipeline. Approximately 64% of Killam's development pipeline is outside Atlantic Canada. Killam targets yields of 5.0% to 6.0% on developments, 50–150 bps higher than the expected cap-rate value on completion. Building out the $700 million pipeline at a 100 bps spread would create approximately $175 million in NAV growth for unitholders. As at September 30, 2019, Killam has the following land available for future development:

Property	Location	Killam's Interest	Development Potential (# of Units) (1)	Status	Estimated Year of Completion
Developments expected to start in the next 24 months					
The Governor (2)	Halifax, NS	100%	12	In design and approval process	2021
Nolan Hill(3)	Calgary, AB	10%	23	In design and approval process	2021
Weber Scott Pearl	Kitchener, ON	100%	172	In design and approval process	2022
Westmount Place (Ph 1)	Waterloo, ON	100%	114	In design	2022
Developments expected to start in 2021-2025					
Haviland Street	Charlottetown, PE	100%	99	In design	2022
Gloucester City Centre (Phase 3-4)	Ottawa, ON	50%	185	In design	2024
Westmount Place (Ph 2-5)	Waterloo, ON	100%	908	In design	2028
Additional future development projects					
Carlton Terrace	Halifax, NS	100%	104	In design and approval process	TBD
Kanata Lakes	Ottawa, ON	50%	40	In design and approval process	TBD
Medical Arts	Halifax, NS	100%	200	Future development	TBD
Carlton Houses	Halifax, NS	100%	80	Future development	TBD
Topsail Road	St. John's, NL	100%	225	Future development	TBD
Block 4	St. John's, NL	100%	80	Future development	TBD
Total Development Opportunities			**2,242**		

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

(2) This development is adjacent The Alexander, Killam's newly completed development, and will include 12 large-scale luxury suites.

(3) Killam owns a 10% interest in this four phase 829-unit development project. At the completion of construction of the first phase and the achievement of certain conditions, Killam has a $55.0 million commitment in place to purchase three, four-storey apartment buildings, containing 233 residential units.

Assets Held for Sale

Killam determined that a parcel of land for development in Calgary met the criteria for classification as assets held for sale as at September 30, 2019. The property has a carrying value of $14.2 million (Killam's 40% interest). In Q3-2019, Killam completed the sale of one parcel of land in Edmonton previously classified as held for sale.

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

Capital Improvements

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

During the three and nine months ended September 30, 2019, Killam invested $22.7 million and $49.8 million, compared to $12.9 million and $30.3 million for the three and nine months ended September 30, 2018. Killam expects to invest between $60 and $65 million during 2019 in capital improvements. This increase reflects additional capital allocated to Killam's repositioning and energy efficiency programs, as well as targeted spending for curb appeal projects to enhance value and timing of multi-phase cladding and building envelope upgrades. Killam has also increased capital associated with its commercial portfolio, specifically with leaseholds for new tenants at its Brewery Market property.

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
Apartments	**$20,466**	$11,417	79.3%	**$45,770**	$26,986	69.6%
MHCs	**1,207**	982	22.9%	**2,530**	2,103	20.3%
Commercial	**1,046**	475	120.2%	**1,541**	1,214	26.9%
	$22,719	$12,874	76.5%	**$49,841**	$30,303	64.5%

Apartments - Capital Spend

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

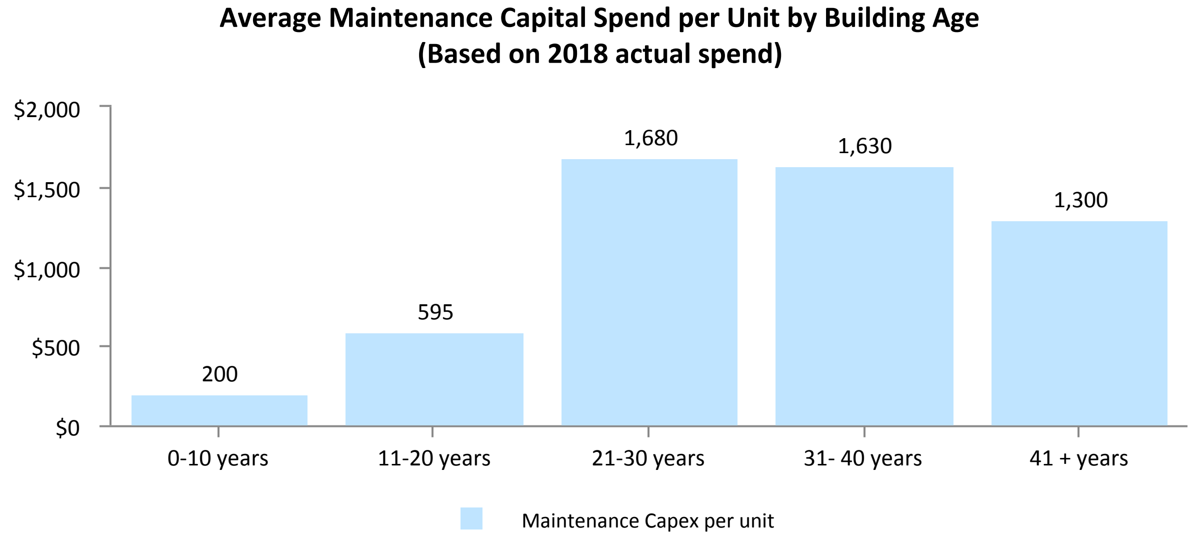
	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
Building improvements	**$11,447**	$6,144	86.3%	**$26,765**	$14,806	80.8%
Suite renovations	**6,320**	3,630	74.1%	**13,601**	8,393	62.1%
Appliances	**660**	410	60.9%	**1,676**	986	70.0%
Boilers and heating equipment	**1,020**	792	28.8%	**2,106**	1,894	11.2%
Other	**1,019**	441	131.1%	**1,622**	907	78.8%
Total capital spend	**$20,466**	$11,417	79.3%	**$45,770**	$26,986	69.6%
Average number of units outstanding (1)	**15,667**	14,686	6.7%	**15,429**	14,581	5.8%
Capital spend - $ per unit	**$1,306**	$777	68.1%	**$2,966**	$1,851	60.2%

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

Killam invested $1,306 and $2,966 per unit for the three and nine months ended September 30, 2019, compared to $777 and $1,851 per unit for the same periods of 2018. This increase is attributable to Killam's additional capital spend related to value-enhancing improvements at its properties, which is supporting accelerating rental rate growth.

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

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



Building Improvements
Of the $20.5 million and $45.8 million total capital investment in the apartment segment for the three and nine months ended September 30, 2019, approximately 56% and 58% was invested in building improvements, compared to 54% and 55% of the total capital spend for the three and nine months ended September 30, 2018. These investments include exterior cladding and brick work, balcony refurbishments, roof upgrades, common area renovations and energy and water efficiency investments, such as LED lighting upgrades, to increase the quality and efficiency of Killam's portfolio. The quarter-over-quarter variance relates primarily to the timing of multi-phase building envelope projects, exterior and interior upgrades to modernize properties and an increase in energy efficiency investments.

Suite Renovations and Repositionings
Killam invested $6.3 million and $13.6 million in suite renovations during the three and nine months ended September 30, 2019, a 74.1% and 62.1% increase over the total investment of $3.6 million and $8.4 million for the three and nine months ended September 30, 2018. This increase is due to the recent acceleration of Killam's repositioning program. Killam continues to focus on unit renovations to maximize occupancy and rental increases. Killam targets a minimum return on investment of 10% for its suite renovations with monthly rental rate increases of 10% - 30%. The timing of suite renovation investment is influenced by tenant turnover, market conditions and individual property requirements. The length of time that Killam has owned a property and the age of the property also impact capital requirements. Year-to-date, Killam has completed upgrades to 251 units, with an average investment of approximately $26,500 per suite, an average ROI of 13% and an expected average monthly rental increase of $280.

Killam is on target to complete a minimum of 300 repositioned units in 2019, which Management expects will generate $1.0 million in additional annualized revenue. The opportunity to reposition units within Killam's current portfolio is approximately 3,000 units, which could generate an estimated $10.0 million in additional annualized revenue and approximately $195 million increase in NAV.

Energy Efficiencies
Killam continues to execute on its energy efficiency plan in 2019, with a budget of $5.0 million on energy related projects and projected annualized savings of $0.9 million. Projects include the installation of LED lighting ($1.1 million), low-flow fixtures ($0.9 million), and heating efficiency ($2.9 million), including condensing gas boilers, system recommissioning, insulation upgrades, and thermostat replacements and an average payback of 5.6 years. Year-to-date, Killam has invested $3.3 million in these initiatives, including the installation of LED lighting ($0.8 million) and heating efficiencies ($2.5 million).

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

MHCs - Capital Spend

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

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
Water and sewer upgrades	**$466**	$416	12.0%	**$1,012**	$942	7.4%
Site expansion and land improvements	**126**	169	(25.4)%	**179**	226	(20.8)%
Other	**277**	238	16.4%	**795**	638	24.6%
Roads and paving	**294**	108	172.2%	**389**	200	94.5%
Equipment	**44**	51	(13.7)%	**155**	97	59.8%
Total capital spend - MHCs	**$1,207**	$982	22.9%	**$2,530**	$2,103	20.3%
Average number of sites	**5,427**	5,280	2.8%	**5,427**	5,203	4.3%
Capital spend - $ per site	**$222**	$186	19.4%	**$466**	$404	15.3%

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

Total capital spend during the three and nine months ended September 30, 2019 was $1.2 million and $2.5 million, up from $1.0 million and $2.1 million in the three and nine months ended September 30, 2018. The increase in capital spend is due to increased investment in various community enhancements. As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community.

Mortgages and Other Loans

The table below outlines Killam's key debt metrics:

As at	**September 30, 2019**	December 31, 2018	Change
Weighted average years to debt maturity	**4.6**	4.4	0.2 years
Total debt to total assets	**47.2%**	49.8%	(260) bps
Interest coverage	**3.19x**	3.22x	(0.9)%
Debt service coverage	**1.57x**	1.58x	(0.6)%
Debt to normalized EBITDA (1)	**10.47x**	10.62x	(1.4)%
Weighted average mortgage interest rate	**2.91%**	2.95%	(4) bps
Weighted average interest rate of total debt	**2.95%**	3.10%	(15) bps

(1) Ratio calculated net of cash.

Killam’s long-term debt consists largely of fixed-rate, long-term mortgages. Mortgages are secured by a first or second charge against individual properties. Killam’s weighted average interest rate on mortgages as at September 30, 2019, was 2.91%, 4 bps lower compared to the rate as at December 31, 2018.

Total debt as a percentage of total assets was 47.2% at September 30, 2019 compared to 49.8% at December 31, 2018. The reduction in total leverage is attributable to higher valuations associated with investment properties, a lower balance on Killam's credit facilities at September 30, 2019 versus December 31, 2018 and a reduction in variable rate debt. Management is focused on maintaining conservative debt levels. Total debt to total assets is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. A 10 bps increase in the weighted average cap-rate as at September 30, 2019, would increase the debt as a percentage of assets by 80 bps.

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

Refinancings

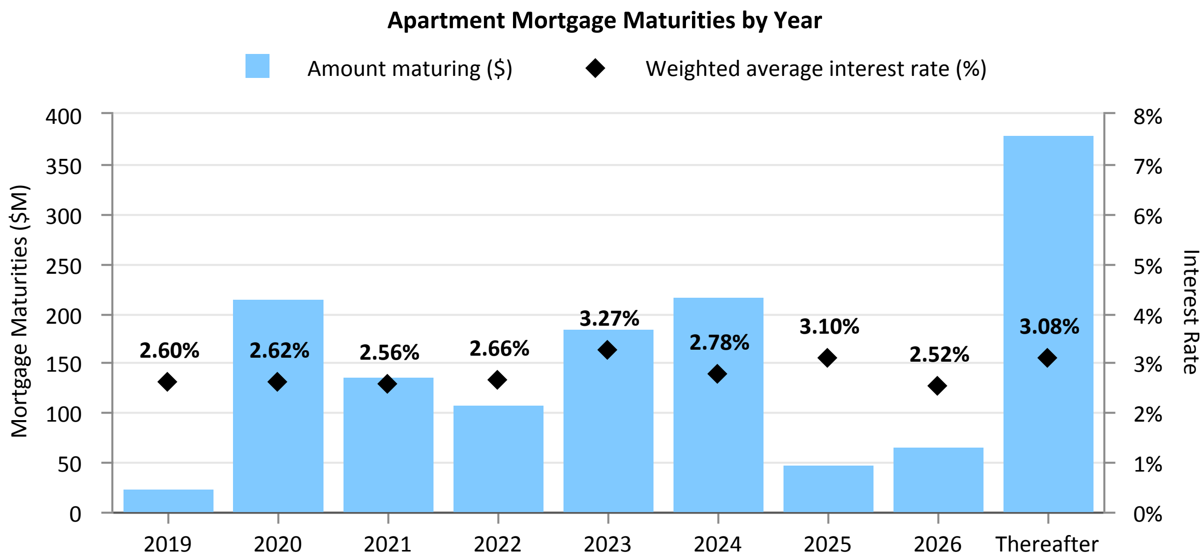
For the nine months ended September 30, 2019, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$129,324	2.82%	$188,398	2.65%	6.6 years	$59,074
MHCs	6,758	4.23%	9,850	3.43%	5.0 years	3,092
	$136,082	2.89%	$198,248	2.69%	6.3 years	$62,166

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

	Apartments			MHCs		Total	
Year of Maturity	Balance September 30	Weighted Avg Int. Rate %	% CMHC Insured	Balance September 30	Weighted Avg Int. Rate %	Balance September 30 (1)	Weighted Avg Int. Rate %
2019	$24,878	2.60%	80.6%	$10,171	3.59%	$35,049	2.89%
2020	216,064	2.62%	50.4%	6,192	3.52%	222,256	2.65%
2021	136,518	2.56%	81.9%	6,454	3.29%	142,972	2.59%
2022	108,124	2.66%	68.1%	23,062	3.67%	131,186	2.84%
2023	185,715	3.27%	77.2%	19,979	4.17%	205,694	3.35%
2024	216,239	2.78%	93.8%	9,800	3.43%	226,039	2.80%
Thereafter	494,935	3.00%	100.0%	—	—%	494,935	3.00%
	$1,382,473	2.87%	83.9%	$75,658	3.72%	$1,458,131	2.91%

(1) Excludes $10.8 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at September 30, 2019.



Access to mortgage debt is essential in refinancing maturing debt and financing acquisitions. Management has diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered maturity dates to manage interest rate risk. Management anticipates continued access to mortgage debt for both acquisitions and refinancings. Access to CMHC-insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee and therefore are able to lend at more favorable rates. As at September 30, 2019, approximately 83.9% of Killam's apartment mortgages were CMHC-insured (79.6% of total mortgages, as MHC mortgages are not eligible for CMHC insurance) (December 31, 2018 - 84.6% and 79.7%). The weighted average interest rate on the CMHC-insured mortgages was 2.78% as at September 30, 2019 (December 31, 2018 - 2.95%).

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

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

Remaining 2019 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	10	$2,931	$24,734
MHCs with debt maturing	3	1,033	7,519
	13	$3,964	$32,253

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

Future Contractual Debt Obligations

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

Twelve months ending September 30,	Mortgage and Loans Payable	Construction Loans	Credit Facilities	Total
2020	$274,934	$22,720	$—	$297,654
2021	154,115	—	36,000	190,115
2022	188,368	—	—	188,368
2023	186,132	—	—	186,132
2024	206,113	—	—	206,113
Thereafter	459,270	—	—	459,270
	$1,468,932	**$22,720**	**$36,000**	**$1,527,652**

Credit Facilities

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

The $70.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). The facility includes a $30.0 million demand revolver and a $40.0 million committed revolver as well as an accordion option to increase the $70.0 million facility by an additional $20.0 million. Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at September 30, 2019, Killam has assets with a carrying value of $83.8 million pledged as first mortgage ranking and $345.4 million pledged as second mortgage ranking to the line and a balance outstanding of $36.0 million (December 31, 2018 - $53.4 million). The agreement includes certain covenants and undertakings with which Killam was in compliance as at September 30, 2019.

The $5.0 million facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at September 30, 2019, Killam had assets with a carrying value of $2.1 million pledged as collateral (December 31, 2018 - $2.1 million) and letters of credit totaling $1.3 million outstanding against the facility (December 31, 2018 - $1.0 million). The agreement includes certain covenants and undertakings with which Killam was in compliance as at September 30, 2019.

As at September 30, 2019	Maximum Loan Amount (1)	Amount Drawn	Letters of Credit	Amount Available
$70.0 million demand facility	$90,000	$36,000	$—	$54,000
$5.0 million demand facility	5,000	—	1,270	3,730
Total	**$95,000**	**$36,000**	**$1,270**	**$57,730**

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

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

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

Construction Loans

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

Unitholders' Equity

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

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

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

During Q1-2019, Killam increased its monthly distribution by 3.1% to $0.055, effective for the March 2019 distribution ($0.66 per unit annualized). Killam's Distribution Reinvestment Plan ("DRIP") allows unitholders to elect to have all cash distributions from the trust reinvested in additional units. Unitholders who participate in the DRIP receive an additional distribution of units equal to 3% of each cash distribution reinvested. The price per unit is calculated by reference to the 10-day volume weighted average price of Killam's units on the Toronto Stock Exchange preceding the relevant distribution date, which typically is on or about the 15th day of the month following the distribution declaration.

The following chart highlights Killam's distributions paid and trust units reinvested.

Distribution Reinvestment Plan and Net Distributions Paid

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	**2019**	2018	% Change
Distributions declared on trust units	**$15,276**	$13,729	11.3%	**$44,820**	$39,764	12.7%
Distributions declared on exchangeable units	**685**	609	12.5%	**2,042**	1,827	11.8%
Distributions declared on awards outstanding under RTU plan	**71**	76	(6.6)%	**211**	227	(7.0)%
Total distributions declared	**$16,032**	$14,414	11.2%	**$47,073**	$41,818	12.6%
Less:						
Distributions on trust units reinvested	**(4,649)**	(3,504)	32.7%	**(12,527)**	(10,823)	15.7%
Distributions on RTUs reinvested	**(71)**	(76)	(6.6)%	**(211)**	(227)	(7.0)%
Net distributions paid	**$11,312**	$10,834	4.4%	**$34,335**	$30,768	11.6%
Percentage of distributions reinvested	**29.4%**	24.8%		**27.1%**	26.4%	

Liquidity and Capital Resources

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

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

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

(ii) Killam's $70.0 million revolving credit facility has an accordion feature to increase the facility up to $90.0 million. Including this feature, Killam's credit facilities, using 60% mortgage leverage, provided acquisition capacity over $135 million as at the end of Q3-2019. Following the closing of the $100.0 million equity raise on November 4, 2019, and the subsequent repayment of the outstanding balance of Killam's credit facility, Killam's acquisition capacity on its credit facility increased to over $225 million.

(iii) The retained portion of annual ACFO, mortgage refinancings and construction loans are expected to be sufficient to fund value-enhancing capex, principal repayments and developments.

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

Killam is in compliance with all financial covenants contained in the DOT and through its credit facilities. Under the DOT, total indebtedness of Killam is limited to 70% of gross book value determined as the greater of (i) the value of Killam's assets as shown on the most recent condensed consolidated interim statement of financial position and (ii) the historical cost of Killam's assets. Total debt as a percentage of assets as at September 30, 2019 was 47.2%.

PART VIII

Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. These are described in detail in the MD&A of Killam's 2018 Annual Report and in Killam's Annual Information Form, both filed on SEDAR. These factors continue to exist at the end of this quarter and remain relatively unchanged.

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

The condensed consolidated interim financial statements should be read in conjunction with Killam's most recently issued Annual Report, which includes information necessary or useful to understanding Killam's business and financial statement presentation. In particular, Killam's significant accounting policies were presented in note 2 to the audited consolidated financial statements for the year ended December 31, 2018, and any changes in the accounting policies applied have been described in note 2 to the condensed consolidated interim financial statements for the three and nine months ended September 30, 2019.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions. Significant areas of judgment, estimates and assumptions are set out in note 3 to the audited consolidated financial statements found in Killam's 2018 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred income taxes.

IFRS 16*, Leases*

On January 13, 2016 the International Accounting Standards Board ("IASB") issued IFRS 16, replacing IAS 17 and related interpretations. IFRS 16 provides a comprehensive framework for recognition, measurement and disclosure for accounting for leases. Lessor accounting under IFRS 16 is substantially unchanged, and lessors will continue to classify all leases as either operating or finance leases using principles similar to those in IAS 17. Therefore, IFRS 16 does not have an impact for leases where Killam is the lessor.

Killam adopted the standard on January 1, 2019 using the modified retrospective approach and elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Killam has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value.

As part of the adoption of this standard, Killam reviewed all lease contracts in which it is a lessee and concluded that all leases, with the exception of three ground leases, were assets of low value and therefore had no impact upon adoption. The implementation of IFRS 16 resulted in a right-of-use asset and lease liability being recorded in the amount of $7.1 million. Refer to Note 8 to the condensed consolidated interim financial statements for additional information.

In accordance with IFRS 16, at the commencement date of any new leases, Killam recognizes a liability to reflect the present value of the lease obligations and an asset representing the right to use the underlying asset during the lease term. Land leases meet the definition of investment property under IAS 40; therefore, the fair value model is applied to these assets. Interest expense on the lease liability and the fair value gain or loss on the right-of-use asset is recognized separately on the statement of income and comprehensive income.

Killam measures lease liabilities at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, Killam uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities are remeasured if there are modifications, a change in the lease terms, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatment*

In June 2017, the IASB issued IFRIC 23, which addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

An entity applies IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight.

The IFRIC Interpretation did not have a material impact on Killam's condensed consolidated interim financial statements.

Disclosure Controls, Procedures and Internal Controls

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

Related Party Transactions

Killam has a construction management agreement with APM Construction ("APM"), a company owned by a Trustee of Killam, to provide construction services related to the Shorefront apartment development in Charlottetown, PE. APM will be paid a market rate development and construction management fee. For the nine months ended September 30, 2019, APM was paid $0.7 million in development and construction management fees (September 30, 2018 - $nil).

Subsequent Events

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

On November 1, 2019, Killam acquired a 359-site seasonal resort located in Shediac, NB for $3.8 million.

On October 15, 2019, Killam announced a public offering of 5,050,000 trust units. The offering closed on November 4, 2019. The agreement includes an over allotment option for an additional 757,500 units.