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 $3.3 billion portfolio of apartments, manufactured home communities ("MHCs") and commercial properties, across seven provinces. 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, the Alberta ("AB") apartment market in 2014, and the British Columbia ("BC") apartment market in 2020. Killam broke ground on its first development in 2010 and has completed eleven projects to date, with a further four 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 88.4% of Killam's net operating income ("NOI") for the year ended December 31, 2019. As at December 31, 2019, Killam's apartment portfolio consisted of 16,325 units, including 968 units jointly owned with institutional partners. Killam's 199 apartment properties are located in Atlantic Canada's six largest urban centres (Halifax, Moncton, Saint John, Fredericton, Charlottetown and St. John's), Ontario (Ottawa, London, Toronto and Kitchener-Waterloo-Cambridge), Alberta (Edmonton and Calgary), and British Columbia (Greater Victoria). 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 outside Atlantic Canada through acquisitions and developments, however, will continue to invest strategically in Atlantic Canada to maintain its market presence.

In addition, Killam owns 5,786 sites in 38 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 6.9% of Killam's NOI for the year ended December 31, 2019. Killam also owns 771,715 square feet of commercial space that accounted for 4.7% of Killam's NOI for the year ended December 31, 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 consolidated financial statements and pertains to known risks and uncertainties. This MD&A should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2019 and 2018, 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 February 12, 2020. This MD&A has been reviewed and approved by Management and the REIT's Board of Trustees.

Declaration of Trust

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

Investment Guidelines

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

Operating Policies

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

As at December 31, 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 29.
- 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 31.
- 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 32. 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 80.2% of the fair value of Killam's investment property portfolio as at December 31, 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) 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.
5) Occupancy – Management is focused on maximizing occupancy while also managing the impact of higher rental rates. This measure is a percentage based on dollars of lost rent from vacancy divided by gross potential residential rent.
6) Rental Increases – Management expects to increase average annual rental rates and tracks average annual rate increases.
7) 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.
8) Weighted Average Interest Rate of Mortgage Debt and Total Debt – Killam monitors the weighted average cost of its mortgage and total debt.
9) Weighted Average Years to Debt Maturity – Management monitors the weighted 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:

For the years ended December 31,			
Operating Performance	**2019**	2018	Change (2)
Property revenue	**$241,749**	$215,959	11.9%
Net operating income	**$152,336**	$135,712	12.2%
Net income	**$283,525**	$175,171	61.9%
FFO (1)	**$93,884**	$81,808	14.8%
FFO per unit - diluted (1)	**$0.98**	$0.94	4.3%
AFFO (1)	**$76,768**	$66,275	15.8%
AFFO per unit - diluted (1)	**$0.80**	$0.76	5.3%
Weighted average number of units outstanding - diluted (000s)	**95,914**	87,185	10.0%
Distributions paid per unit (3)	**$0.66**	$0.64	3.1%
AFFO payout ratio - diluted (1)	**82%**	84%	(200) bps
Portfolio Performance			
Same property NOI (1)	**$126,485**	$121,482	4.1%
Same property NOI margin	**62.9%**	62.5%	40 bps
Same property apartment occupancy	**97.3%**	96.9%	40 bps
Same property apartment weighted average rental increase (4)	**3.6%**	2.7%	90 bps

As at December 31,	2019	2018	Change (2)
Leverage Ratios and Metrics			
Debt to total assets	**43.4%**	49.8%	(640) bps
Weighted average mortgage interest rate	**2.90%**	2.95%	(5) bps
Weighted average years to debt maturity	**4.5**	4.4	0.1 years
Debt to normalized EBITDA (1)	**10.15x**	10.62x	(4.4)%
Debt service coverage (1)	**1.57x**	1.58x	(0.6)%
Interest coverage (1)	**3.20x**	3.22x	(0.6)%

(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 December 31.

Summary of 2019 Results and Operations

Achieved Net Income of $284 Million
Killam achieved net income of $284 million in 2019 compared to $175 million in 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.

FFO per Unit Growth of 4.3% and AFFO per Unit Growth of 5.3%
Killam generated solid FFO and AFFO per unit growth in 2019. FFO per unit was $0.98 in 2019, 4.3% higher than 2018, and AFFO per unit increased 5.3% in 2019. The growth is attributable to increased NOI due to strong same property performance and incremental contributions from recent acquisitions and completed developments, partially offset by higher financing costs and a 10.0% increase in the weighted average number of units outstanding from an aggregate $201 million of equity issued in 2019. AFFO was further enhanced by the addition of newer high-quality assets to the portfolio, which require lower maintenance capital expenditure.

Portfolio Growth from Acquisitions and Continued Geographic Diversification
In 2019, Killam completed $191 million of acquisitions, adding 640 apartment units, approximately 220,000 square feet of commercial space and 359 MHC sites to its portfolio. These acquisitions expanded Killam's presence in Ontario, Alberta, PEI and New Brunswick. Killam has continued to execute on its strategy to increase the percentage of NOI generated outside Atlantic Canada, with an increase from 27% in 2018 to 30% in 2019. More than 56% of the capital deployed for acquisitions in 2019 was in Alberta and Ontario.

Same Property NOI Growth of 4.1% and Improved Operating Margin
Killam achieved 4.1% growth in consolidated same property NOI and a 40 bps improvement in its operating margin during 2019. This improvement was driven by rental rate growth and improved occupancy. Operating expenses increased 2.4%, in-line with inflationary cost pressures.

Killam's same property apartment NOI increased 4.2% during the year, with Ontario, New Brunswick and Halifax all achieving NOI growth of over 5.0%.

Rental Rate Growth of 3.6% Enhanced Top Line Performance
Same property revenue increased 3.5%, compared to 2018, as a result of a 3.6% increase in the average rental rate for the apartment portfolio, a 40 bps increase in average apartment occupancy, a decrease in rental incentives and 2.6% 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 eight quarters, from 1.8% in Q4-2017 to 3.6% in Q4-2019. Rental rate increases on unit turns and lease renewals averaged 5.8% and 2.1% in 2019, up from 4.7% and 1.7% a year earlier. Halifax and Ontario led the apartment performance, achieving year-over-year same property apartment revenue increases of 4.7% and 4.1%.

Successful Repositioning Program Continues to Generate Above-average Returns
During 2019, Killam invested $6.8 million in repositionings and completed 304 unit upgrades. The average return on investment ("ROI") on unit repositionings during the year was approximately 13%, based on an average renovation cost of $25,000 per unit. These repositionings are expected to generate approximately an additional $1.0 million in NOI on an annualized basis, and approximately $20 million in Net Asset Value ("NAV") growth.

Cap-rate Compression and Strong NOI Growth Supported Fair Value Gains
Killam recorded $244.1 million in fair value gains related to its investment properties for the year ended December 31, 2019, as a result of cap-rate compression in Halifax, Ontario and on the MHC portfolio and robust NOI growth driven by increasing rental rates and strong apartment fundamentals across Killam's core markets. Killam's weighted average cap-rates for its apartment and MHC portfolios at December 31, 2019, were 4.76% and 5.65%, a decrease of 39 bps and 111 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 2019, together adding $3.1 million to FFO.

Killam continues to make progress on its current developments, investing $41.7 million during 2019. Killam ended 2019 with four development projects underway, totaling 348 units, that have an expected value upon completion of approximately $160 million. In addition, Killam holds a 10% interest in another active development in Calgary. Killam's current development pipeline includes over 2,650 units. Construction of approximately 1,500 of these units is expected to start within the next five years, with 53% of these future units located outside of Atlantic Canada.

Investments in Technology and Data Analytics
Killam implemented a customer relationship management (CRM) software solution in 2019 to augment its high-quality service to tenants and prospective tenants, optimize rental opportunities and further reduce vacancy. This has allowed potential tenants to book appointments and complete applications online while Killam’s leasing teams focus on delivering exceptional customer service. Killam also implemented a risk management software solution in 2019, and expanded its data analytics platform. Having real-time access to leasing and operating data has increased Killam’s ability to rapidly analyze demand and make more timely and accurate operating decisions.

Environmental, Social and Governance (ESG) Focused Initiatives
Killam is working towards reducing its impact on the environment and ensuring its buildings are sustainable and resilient to climate change. Along with Killam’s on-going energy efficiency capital investments, Management completed its first Global Real Estate Sustainability Benchmark (“GRESB”) rating in 2019, as well as a greenhouse gas audit. From this process, many new ESG initiatives were developed and completed such as a property manager sustainability scorecard that measures asset-level sustainability and social engagement.

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	Killam achieved same property NOI growth of 4.1% in 2019.
2020 Target	Same property NOI growth of 3% to 5%.
Longer-term Target	Same Property NOI growth averaging over 3%.

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	Killam exceeded both targets, increasing the portfolio to $3.3 billion and completing $191.1 million in acquisitions.
2020 Target	Complete a minimum of $175.0 million in acquisitions.
Longer-term Target	Grow the portfolio to over $4.0 billion by the end of 2022.

Geographic Diversification	
2019 Target	Earn at least 30% of 2019 NOI outside Atlantic Canada.
2019 Performance	Killam met its target, with 30% of 2019 NOI generated outside Atlantic Canada.
2020 Target	Earn at least 32% of 2020 NOI outside Atlantic Canada.
Longer-term Target	Earn over 37% of NOI generated outside Atlantic Canada by 2022.

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	Killam met its target, with Frontier completed in June 2019 and the commencement of the Kay (Silver Spear II) development during Q3-2019. Latitude (Phase II of the Gloucester City Centre development) also broke ground in Q2-2019.
2020 Target	To complete the Shorefront development, and break ground on two additional development projects.
Longer-term Target	To complete a minimum of $200 million in developments between 2020 and 2022.

Strengthened Balance Sheet	
2019 Target	Manage debt as a percentage of total assets ratio below 49%.
2019 Performance	Debt as a percentage of total assets was 43.4% as at December 31, 2019.
2020 Target	Maintain debt as a percentage of assets ratio below 47%.
Longer-term Target	Reduce debt as a percentage of assets below 45% by the end of 2021.

Outlook

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

These strong demand drivers are resulting in tight rental markets across Canada, including Atlantic Canada. Per Canada Mortgage and Housing Corporation's ("CMHC") Fall 2019 Housing Market Outlook report, Halifax vacancy hit an all-time low of 1.0%, 60 bps below the vacancy rate for the same period in 2018, and CMHC forecasts vacancy will remain below 2.0% into 2020. 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, investing a total of $6.8 million in repositioning 304 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 an 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 500 suites. A review of Killam's portfolio has identified a minimum of 3,000 units having repositioning potential. Killam plans 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 fourth 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. Management is forecasting investments of $5.0 million in both 2020 and 2021 on projects with an average payback of approximately six years. These projects should improve same property NOI by lowering consumption, thereby reducing Killam's exposure to fluctuating energy costs.

Enhancing Efficiencies through Technology
Management continues to invest in technology to improve efficiencies and enhance processes and communication with employees and tenants. After successfully implementing enhancements to its online marketing and leasing platform in 2019, Management is focused on technology to improve potential tenants' online experiences, as well as tenant mobile and online communication experiences. Additional technology investments in 2020 include the use of a business intelligence platform to expand the use of data analytics across Killam, to drive leasing decisions, optimize rental growth and maximize returns. At the property level, Killam is actively seeking opportunities to maximize the efficiency of operating systems, as well as automation to increase tenant safety and comfort.

On Track with Geographic Diversification Targets
Management remains focused on increasing its presence in Ontario and Western Canada. Killam's 2019 NOI generated outside Atlantic Canada was approximately 30%, up from 27% in 2018. In January 2020, Killam completed its first acquisition in Greater Victoria, BC, with a 161-unit apartment property, expanding its presence across Canada. Looking forward, Killam's recent acquisitions and developments, strong development pipeline outside Atlantic Canada and focused acquisition strategy should support Killam in achieving its medium-term target of 37% of its NOI generated outside Atlantic Canada by the end of 2022.

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 97% leased. Killam recorded $9.5 million in fair value gains on the development. Killam currently has four development projects underway, including two in Charlottetown and projects in both Ottawa and Mississauga. Killam also has a 10% interest in a development in Calgary.

Additionally, Killam owns land supporting a development pipeline of approximately 2,650 units, representing a potential additional investment of $850 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 and 2021. Killam expects to complete over $200.0 million of development projects over the next three years. 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, reducing its debt to total asset ratio 640 bps from 49.8% at the end of 2018 to 43.4% at the end of 2019. Killam is also focused on increasing its pool of unencumbered assets by acquiring properties with no debt and repaying its highest interest rate debt. Where possible, Killam uses the opportunity to reduce its MHC mortgage debt that has higher interest rates, as MHCs do not qualify for CMHC insurance.

Repositioning of Brewery Market Expected to Drive FFO and NAV Growth Beyond 2019
Killam continues to reposition its 150,000 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 were $0.5 million lower in 2019 compared to 2018; however, this is expected to be more than offset by long-term NAV growth. In 2020, the Brewery Market is forecasted to achieve a $0.5 million increase in NOI over 2019, with further growth expected in 2021.

Stable Interest Rates Expected on Refinancings
Killam has apartment mortgage maturities of $209.5 million in 2020, having a weighted average interest rate of 2.63%, which is slightly above the prevailing 5-year and 10-year CMHC-insured rates. MHC mortgages of $13.6 million are also maturing in 2020 at a weighted average interest rate in line with current market rates for MHCs. Although interest rates may be lower on refinancings, due to up-financing opportunities on mortgage renewals, the overall interest expense on the refinanced portfolio is expected to be relatively flat.

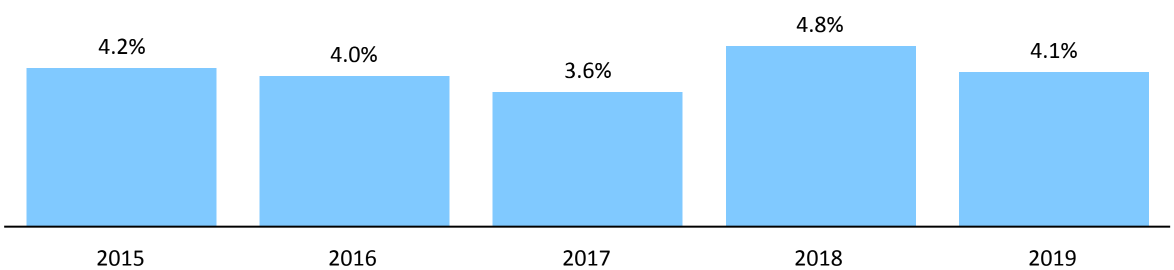
The average interest rates on apartment mortgages maturing in 2021 and 2022 are also in line with current existing market interest rates. Management has laddered its debt maturities and reduced its overall leverage ratios to lessen its exposure to potentially rising interest rates. Management plans to maintain its conservative debt ratios and continue to flatten its debt maturity schedule as mortgages mature.

PART III

Business Strategy

Increase Earnings from the Existing Portfolio
Killam increases the value of its portfolio by maximizing revenue and managing expenses. To achieve NOI growth, Killam must address three critical factors: occupancy, rental rates and operating costs. Killam focuses on providing superior customer service and employee training, using technology and analytics to drive leasing and marketing, maximizing rental rates on renewals and completing unit renovations and repositionings, to maximize revenue on turns. Operating cost management is focused on energy efficiencies, technology investments, economies of scale, risk management, and staff and tenant education. Killam has increased same property NOI by an average of 2.7% per annum over the past decade; in the last five years, averaging 4.1%.

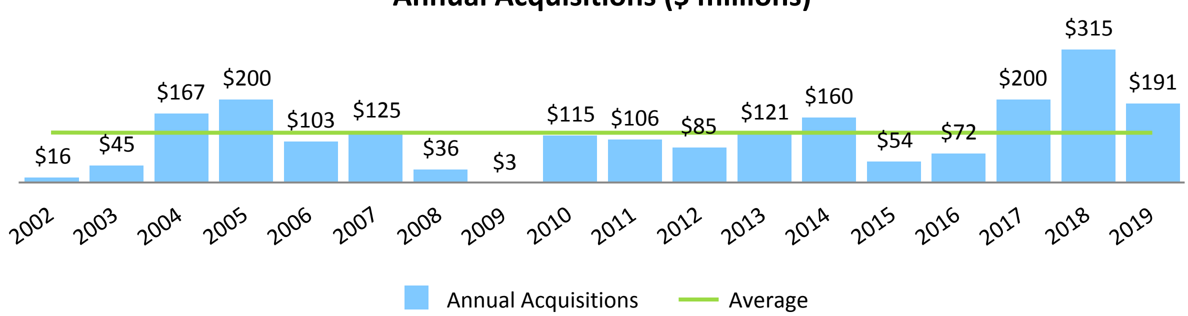
Historic Same Property NOI Growth



Expand the Portfolio through Acquisitions
Killam is expanding its portfolio through the acquisition of centrally located buildings in its target markets of Ontario, Alberta and most recently British Columbia, and continuing to add to its established portfolio in Atlantic Canada. Acquisition activity varies by year depending on opportunities and access to capital. In 2019, Killam acquired $191 million in assets. On average, Killam has acquired over $117 million of properties each year since its first acquisition in 2002.

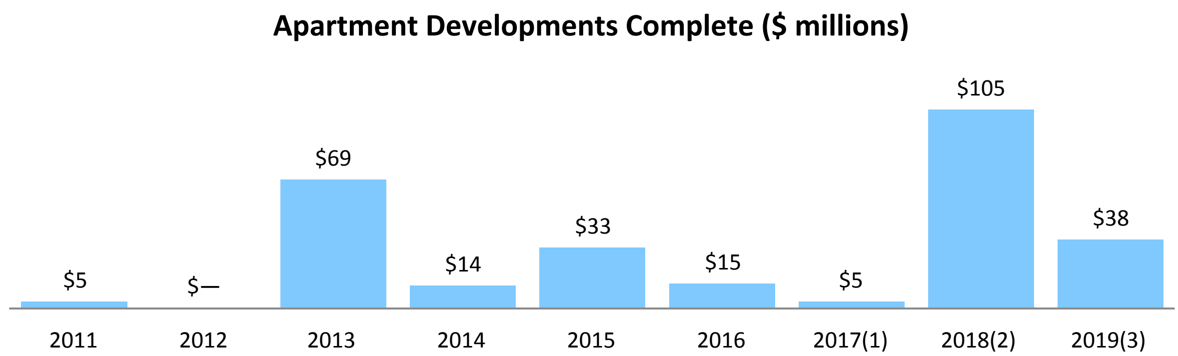
Killam operates one of Canada's newest apartment portfolios and targets the acquisitions of newer properties as modern, high-quality buildings are in greater demand by tenants and require less maintenance capital to operate.

Annual Acquisitions ($ millions)



Develop High-quality Properties in Core Markets

Killam enhances its organic and acquisition growth opportunities with development. Killam started developing apartments in 2010 and has completed eleven projects to date, investing approximately $285 million to construct nearly 1,200 units. Killam has an experienced development team, including an in-house architect and engineers, that oversee all projects. New property construction enables Killam to control the quality and features of its buildings. Killam targets yields of 5.0%–6.0% on development, and expects to build at a 50–150 bps discount to the market capitalization rates ("cap-rates") on completion, creating value for its unitholders. Killam currently has a development pipeline of approximately 2,650 units.



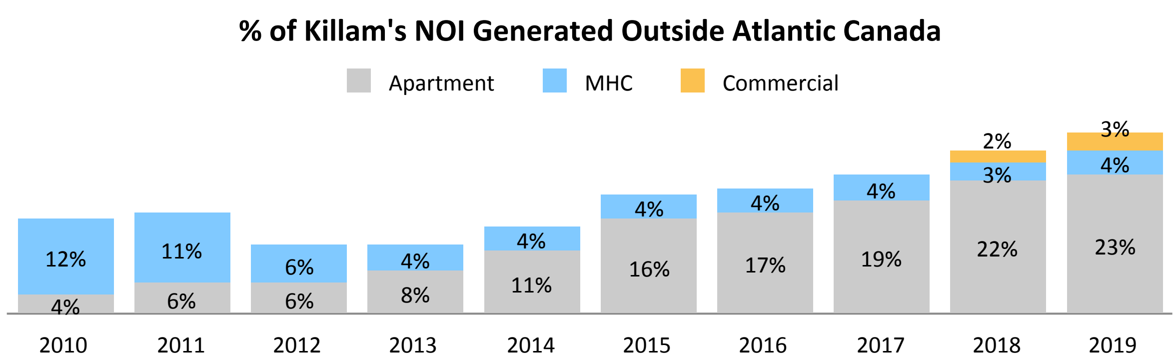
(1) Relates to Killam's 50% interest in the podium portion (55 units) of The Alexander.

(2) 2018 includes Saginaw Park and The Alexander. Killam was the development manager for 100% of the $85 million Alexander development and purchased the remaining 50% interest in December 2018.

(3) 2019 includes Killam's 50% interest in Frontier.

Diversify Geographically through Accretive Acquisitions

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



Committed to ESG

Killam takes its responsibilities as a corporate citizenship seriously, with its core values of *Build Community* and *Do the Right Thing* guiding its commitment to ESG programs and initiatives.

Killam believes that effective corporate governance is critical to its continued and long-term success and contributes to maximizing Unitholder value. The Trustees strongly believe that commitment to sound governance practices is in the best interest of Killam stakeholders, and contributes to effective and efficient decision-making.

Killam has a long history of investing in energy efficiencies. When natural gas was first introduced in the market in Atlantic Canada in 2004, Killam was an early adopter. Starting in 2016, Killam commenced a five-year, $25 million energy-efficiency program, focused on reducing its greenhouse gas emissions, gaining operating efficiencies and lowering operating costs. In the past four years, Killam has progressed with its green projects, including the installation of low-flow toilets and LED lighting retrofits across the entire apartment portfolio. This is in addition to many other efficient heating projects and the installation of solar and geothermal heating systems in new developments.

Giving back has always been an important part of being a responsible corporate citizen at Killam. Killam invests in its communities through various programs and initiatives, and partners with non-profit housing agencies to provide more than 600 subsidized units across its portfolio. The focus on providing outstanding customer service and fostering a sense of community is a priority at Killam.

Killam is committed to providing a supportive and inclusive workplace for all employees. Employees are encouraged to develop their full potential and use their unique talents, maximizing the efficiency of Killam's teams. Killam recognizes the benefits which arise from employee diversity, including a strengthened corporate culture, improved employee retention and access to different perspectives and ideas.

Killam's ESG Oversight Committee provides guidance and ensures the integration of ESG into Killam's strategic objectives. In addition, management regularly reports progress against ESG targets to the Board's Governance & ESG Committee.

Sustainability Policy
Killam has developed a sustainability policy that emphasizes its commitment to ESG practices. The policy applies to all Killam employees. It is supported by the Governance and ESG Committee and approved by the Board of Trustees. The following is Killam's commitment to ESG, included in the ESG policy:

- Invest in new technology and initiatives to increase sustainability and lower our carbon footprint across the portfolio with a focus on reducing waste, energy and water usage.
- Support and invest in our employees through training and development opportunities and providing access to a safe and positive workplace.
- Provide outstanding customer service and a sense of community at our properties.
- Support community initiatives in the communities in which we operate, with an emphasis on affordable housing.
- Establish and implement robust governance policies and practices.
- Report annually on our ESG programs, new initiatives and performance against targets.
- Review our annual ESG benchmark ratings (from various industry bodies) and target areas for improvement each year.

2019 ESG Highlights and Achievements

- Engaged leaders across the REIT to form an ESG oversight committee to provide guidance and ensure the integration of ESG into Killam's strategic objectives.
- Submitted initial GRESB assessment.
- Completed a third party 2018 greenhouse gas consumption audit to ensure accurate baseline and benchmarking.
- Created a sustainability scorecard for all Property Managers to promote and measure initiatives across the portfolio.
- Researched and evaluated LEED, BOMA BEST and other building certifications.
- Implemented additional environmental policies and due diligence procedures.
- Hosted dozens of tenant and community events across the portfolio.
- Redesigned our urban landscaping plan to become more sustainable and hosted Killam's first tree planting day.
- Completed a materiality assessment of Killam's largest risk factors that will guide Killam's sustainable development improvement activities in 2020.

Killam is committed to being a part of the community where it operates and to decrease its carbon footprint and its impact on climate change.

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

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolios by market as at December 31, 2019:

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia				
Halifax	5,753	63	$53,545	35.1%
Sydney	139	2	$1,408	0.9%
	5,892	65	$54,953	36.0%
New Brunswick				
Moncton	1,804	34	$10,836	7.1%
Fredericton	1,529	23	$10,778	7.1%
Saint John	1,202	14	$6,200	4.1%
Miramichi	96	1	$638	0.4%
	4,631	72	$28,452	18.7%
Ontario				
Ottawa	1,216	9	$9,472	6.2%
London	523	5	$5,378	3.5%
Cambridge-GTA	818	6	$10,404	6.8%
	2,557	20	$25,254	16.5%
Newfoundland & Labrador				
St. John's	915	12	$6,931	4.5%
Grand Falls	148	2	$741	0.5%
	1,063	14	$7,672	5.0%
Prince Edward Island				
Charlottetown	986	19	$7,741	5.1%
Summerside	86	2	$570	0.4%
	1,072	21	$8,311	5.5%
Alberta				
Calgary	531	3	$4,834	3.2%
Edmonton	579	4	$5,262	3.5%
	1,110	7	$10,096	6.7%
Total Apartments	**16,325**	**199**	**$134,738**	**88.4%**
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia	2,749	17	$4,662	3.1%
Ontario	2,284	17	$5,330	3.5%
New Brunswick (4)	529	2	$122	0.1%
Newfoundland & Labrador	224	2	$350	0.2%
Total MHCs	**5,786**	**38**	**$10,464**	**6.9%**
Commercial Portfolio (3)				
	Square Footage (1)	Number of Properties (1)	NOI ($) (2)	NOI (2) (% of Total)
Prince Edward Island	187,500	1	$1,084	0.7%
Ontario	297,000	1	$4,578	3.0%
Nova Scotia	254,000	4	$1,230	0.8%
New Brunswick (4)	33,215	1	$242	0.2%
Total Commercial	**771,715**	**7**	**$7,134**	**4.7%**
Total Portfolio		**244**	**$152,336**	**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.

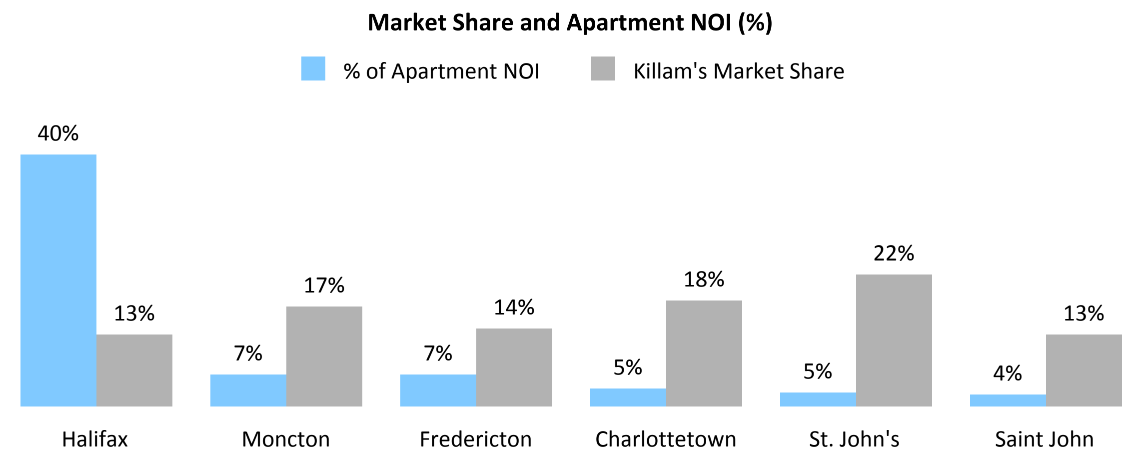
(2) For the year ended December 31, 2019.

(3) Killam also has 151,100 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 that commence in mid-May annually. Killam's New Brunswick commercial property was acquired in June 2019 and the NOI reflects six months of income during the period.

Unique Portfolio Features

Atlantic Canada's Market Leader
Killam is the single largest multi-residential landlord in Atlantic Canada, with a 13% market share of apartments in its core markets as of December 31, 2019. A large portfolio in each core market provides advantages, including brand recognition, a diverse selection of apartments in each city, improved operating margins from economies of scale and the ability to attract and retain top management talent.



With strong rental fundamentals in Atlantic Canada, CMHC's Fall 2019 Rental Market Report highlighted improved occupancy in Killam's Halifax and Moncton markets versus October 2018. Rental fundamentals also remain strong in Fredericton, Saint John and Charlottetown, while St. John's remains soft. This corresponds with Killam's experience in the market.

Relatively Modest Exposure to Rent Control
Over 75% of Killam's current apartment portfolio is not impacted by rent control, allowing Killam to move rents to market rates annually. Prince Edward Island, representing 6.2% of Killam's apartment NOI, is the only province in Atlantic Canada with rent control for apartments. Killam's Ontario portfolio, accounting for 18.7% of apartment NOI, is also subject to rent control. In Ontario, landlords can move rents to market on a unit-by-unit basis as they become vacant. Ontario and Nova Scotia both have rent control for MHCs. In both provinces, rent controls do not apply to new tenants. Overall, only 28.6% of Killam's NOI is generated in markets subject to rent control; however, owners may apply for above-guideline increases ("AGIs")to offset significant capital expenditures in these regions. British Columbia, Killam's newest apartment market, also has rent control. Killam analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to optimize rents on renewal and on turn. Management has increased its focus on applying for AGIs in Ontario, where increases above the annual guideline are supported by significant capital investments into Killam's assets.

CMHC-insured Debt Available for Over 85% of Killam's Portfolio

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

Focused on Customer Service
Annually, Management engages an independent market research firm to measure tenants' satisfaction through an on-line survey (approximately 3,695 respondents in 2019). Killam's 2019 survey results support Killam's focus on service, with tenants giving Killam an impressive 88% satisfaction rating, consistent with the prior years. Killam takes pride in offering tenants well-maintained properties, responding to service requests in a timely manner and providing an attractive housing value proposition. In-house educational programs and adoption of new technology enhance employees' skills to provide exemplary service to current and prospective tenants.

Geographic Diversification
Killam is focused on increasing its geographic diversification through the acquisition and development of properties in its core markets in Ontario, Alberta and British Columbia. Killam's current apartment portfolio consists of 2,557 apartment units in Ontario, up from 225 units in 2010 when Killam first entered the market, and includes properties in Ottawa, Toronto, London, and Kitchener-Waterloo-Cambridge. Killam has also assembled a portfolio of 1,110 units in Calgary and Edmonton, of which 259 units were acquired in 2019. In January 2020, Killam acquired its first apartment property in Greater Victoria, BC, and now owns 161 units in the province. In addition to apartments, 39% of Killam's MHC sites and 38% of Killam's commercial square footage is located in Ontario.

Core Market Update

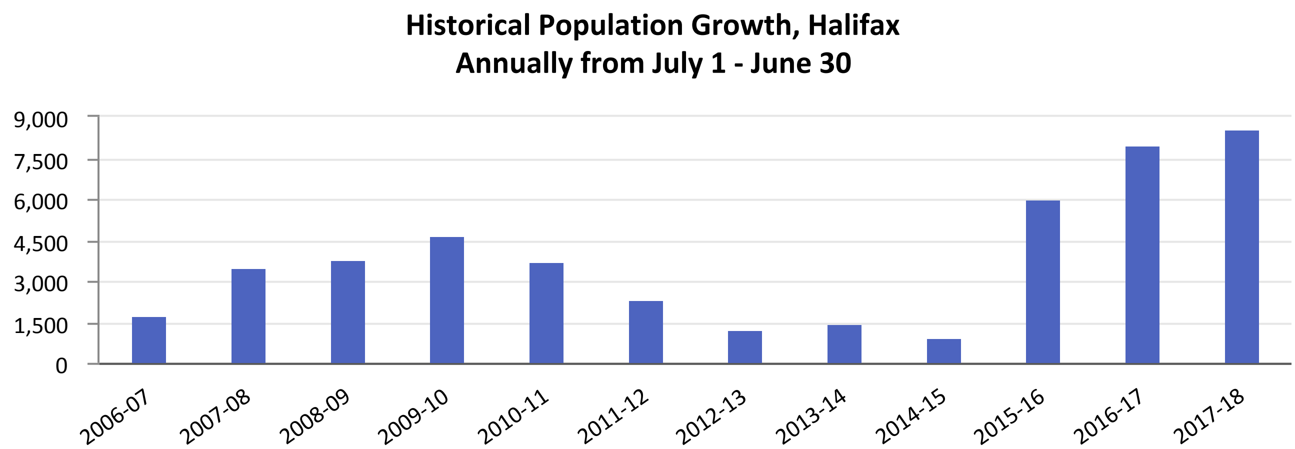
Halifax

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 51,400 units, with an additional 4,000 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.

Scotiabank's October 2019 Provincial Pulse report notes that Nova Scotia continues to experience population growth, with high-earning industries such as scientific & technical and health care services expected to continue to increase population. These sectors saw growth from April 1 to July 1, 2019 of 1.3%, the strongest quarterly growth since 1973. The province has committed to increase capital spending by over 10% for 2020, which is expected to support the Port of Halifax expansion and shipbuilding contracts with the federal government.

According to RBC's December 2019 Provincial Outlook, Nova Scotia is experiencing the fastest population growth since 1986, which has coincided with strong demand for labour. 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 Halifax's population growth from 2005 to 2018, the most recent year for which detailed population growth data is available:

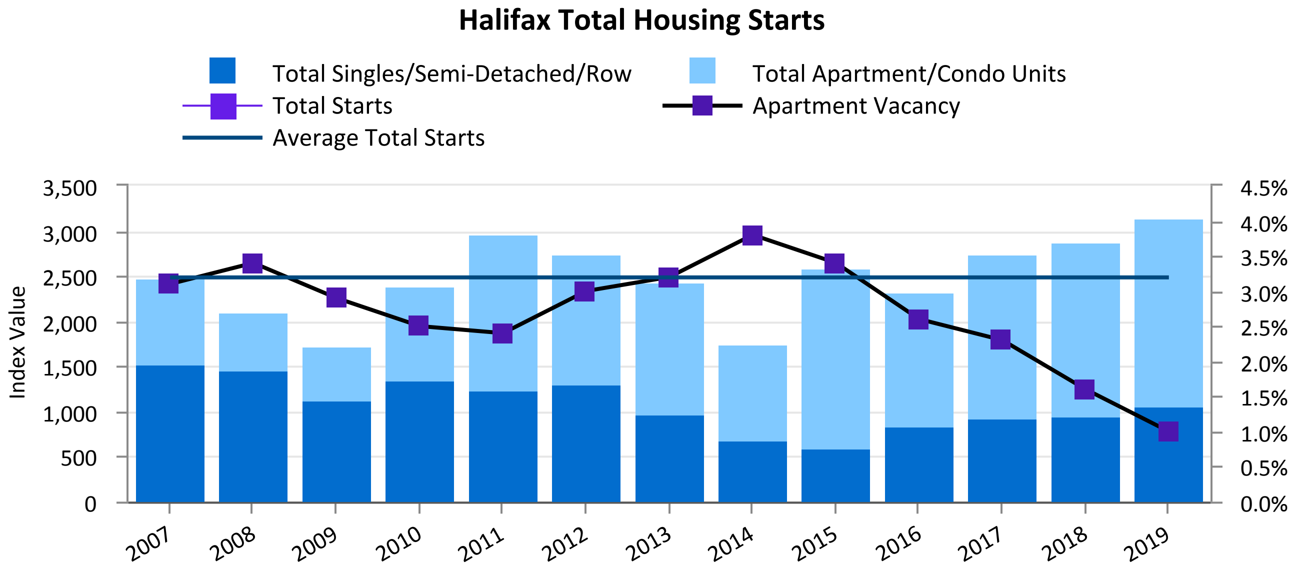


Source: Statistics Canada

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. CMHC reported net provincial migration in 2019 was 3,300, with the past four years seeing positive migration. Halifax has seen an increase in international immigration, representing 63% of Halifax's population growth in 2018. This immigration is reflected in local university enrollment; all three universities experienced an overall enrollment increase of 1.1% and the number of international students increased 4.6%.

According to CMHC's Rental Market Report, released in early 2020, Halifax currently has over 4,000 rental units under construction, which is the highest level seen at any point in time. 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's Rental Market Report reported Halifax's vacancy hit an all time low at 1.0% in October 2019, compared to 1.6% in October 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

Nineteen 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 1.4%, 2.2% and 3.3% in October 2019, down from 2.1%, 2.7% and 3.7%, respectively, in October 2018.

St. John's, Newfoundland

Five percent of Killam's NOI is generated in St. John's, Newfoundland. RBC's December 2019 Provincial Outlook reported Newfoundland's economy was expected to grow 2.0% in 2019 and 1.1% in 2020. Employment has risen 1.3% in 2019, and the unemployment rate reached its lowest level in five years in October 2019, at 11.1%; however, CMHC reported 6.9% vacancy in St. John's in October 2019, a slight increase from 6.3% in October 2018.

Prince Edward Island

Killam has an 18% share of the Charlottetown market, the provincial capital and the economic centre of Prince Edward Island. The Charlottetown apartment market accounted for 5% of Killam's total NOI in 2019. According to RBC's December 2019 Provincial Outlook report, PEI's economy continues to thrive on rapid population growth, leading the country's population growth for a third year in a row at 2.2%, which is expected to continue into 2020. The provincial economy is expected to grow by 2.0% in 2020 and 2021. CMHC reported Charlottetown vacancy of 1.2% in October 2019, an increase over 20 bps in October 2018, as the housing market appears to be responding to the record low vacancy experienced in 2018 with increased supply.

Ontario

Killam's Ontario apartment portfolio generated 17% of NOI in 2019. 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. RBC's December 2019 Provincial Outlook reported overall conditions in Ontario are favorable and the economy is growing at a more sustainable pace. Overall, Ontario vacancy per CMHC was 2.0% for October 2019, up slightly from 1.8% in October 2018.

Ottawa
According to CMHC's 2019 Housing Market Outlook, Ottawa's vacancy rates have continued to decline. Vacancy in October 2019 was 1.8%, compared to 1.6% in October 2018 and 1.7% in October 2017. Looking forward, CMHC forecasts vacancy will remain under 2.0% through 2020 and 2021. Rental demand has continued to be strong, supported by continued population growth, with an important driver being immigration. CMHC reported steady net migration levels, with Ottawa's population growing at an average annual rate of 2.4% over the last three years. The average rent for a two-bedroom unit rose by 8.0% year-over-year (to $1,410 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 2019, CMHC reported a decrease in overall vacancy to 2.1% from 2.9% in October 2018; however, the high vacancy in 2018 was primarily driven by a large supply of new units in that period. CMHC is forecasting a slight increase in vacancy to approximately 2.5% in 2020 and 2021. Rental demand is expected to continue to be strong in this region, fueled by population growth coupled with the increase in mortgage carrying costs, making it more difficult for individuals to purchase a home.

London
The London primary rental market saw a decrease in overall vacancy, from 2.1% in 2018 to 1.8% 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 strong net migration levels and rising permanent resident admissions.

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 1.5% in October 2019 and forecast this vacancy rate to decrease slightly 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

Seven 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 were positive trends in the multi-family markets in both Calgary and Edmonton. While RBC's December 2019 Provincial Outlook expected growth to be only be 0.6% in 2019, growth is projected to be 1.7% in 2020 and 2.3% in 2021. RBC reports gradual lifting of mandated oil production cuts will set the stage for a significant increase in energy output and operation of the Canadian section of Enbridge's Line 3 pipeline should help fuel growth.

Calgary
In its 2019 Housing Market Report, CMHC reported 3.9% vacancy for Calgary, consistent with 2018, and forecasts a decline to 3.2% and 2.8% in 2020 and 2021, based on improving fundamentals and stronger population growth. The average rent for a two-bedroom unit rose by 2.6% year-over-year (to $1,305 per unit). Calgary's population grew by 2.3% in 2019, up from 1.8% in 2018.

Edmonton
In Edmonton, CMHC reported 4.9% vacancy in October 2019, versus 5.3% in October 2018, and an average monthly rental rate of $1,257 for a two-bedroom apartment, up 0.8% from a year earlier. CMHC's 2019 Housing Market 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

2019 Financial Overview

Consolidated Results

For the years ended December 31,

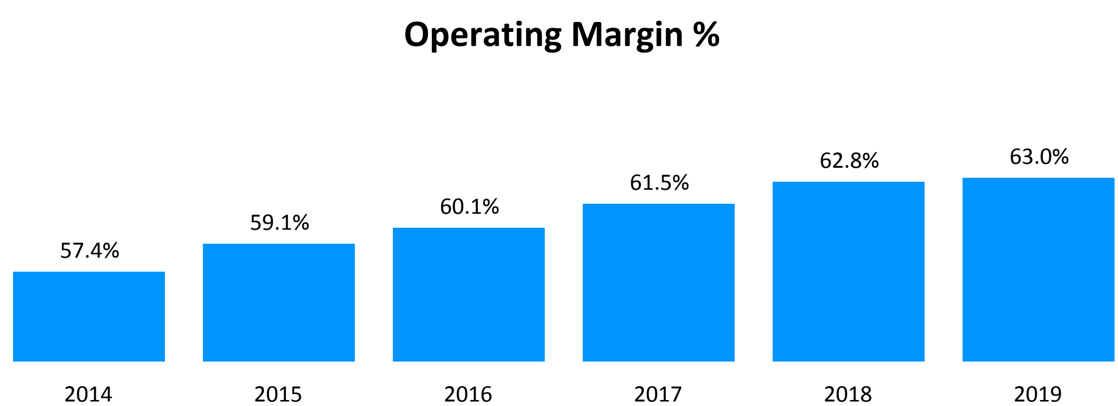
	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$241,749**	$215,959	11.9%	**$201,200**	$194,439	3.5%	**$40,549**	$21,520	88.4%
Property operating expenses									
General operating expenses	**37,187**	33,447	11.2%	**31,131**	30,078	3.5%	**6,056**	3,369	79.8%
Utility and fuel expenses	**23,515**	21,705	8.3%	**20,892**	20,723	0.8%	**2,623**	982	167.1%
Property taxes	**28,711**	25,095	14.4%	**22,692**	22,156	2.4%	**6,019**	2,939	104.8%
Total operating expenses	**$89,413**	$80,247	11.4%	**$74,715**	$72,957	2.4%	**$14,698**	$7,290	101.6%
NOI	**$152,336**	$135,712	12.2%	**$126,485**	$121,482	4.1%	**$25,851**	$14,230	81.7%
Operating margin %	**63.0%**	62.8%	20 bps	**62.9%**	62.5%	40 bps	**63.8%**	66.1%	(230) bps

For the year ended December 31, 2019, Killam recognized strong total portfolio performance. Revenue grew 11.9%, offset by total operating expense increases of 11.4% due to inflationary pressures and the increased size of Killam's portfolio. In aggregate, NOI increased 12.2% for the year ended December 31, 2019.

Same property results included properties owned during comparable 2019 and 2018 periods. Same property results represent 80.2% of the fair value of Killam's investment property portfolio as at December 31, 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 3.5% for the year ended December 31, 2019, as compared to the same period 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 2.4% for the year ended December 31, 2019. Overall, same property NOI grew by 4.1% and Killam's operating margin improved by 40 bps.

Killam's net operating margin percentage has increased steadily over the past five years, reaching 63.0% in 2019, a 20 bps increase over 2018. The increases can be attributed to higher rental revenues and expense reductions through efficiency projects as well as the acquisition and development of higher-quality and more efficient properties, generating higher margins.



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

Apartment Results

For the years ended December 31,

	Total			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$211,143**	$190,048	11.1%	**$184,371**	$178,012	3.6%	**$26,772**	$12,036	122.4%
Property operating expenses									
General operating expenses	**30,274**	27,533	10.0%	**27,053**	26,120	3.6%	**3,221**	1,413	128.0%
Utility and fuel expenses	**21,081**	19,523	8.0%	**19,462**	19,242	1.1%	**1,619**	281	476.2%
Property taxes	**25,050**	22,321	12.2%	**21,924**	21,392	2.5%	**3,126**	929	236.5%
Total operating expenses	**$76,405**	$69,377	10.1%	**$68,439**	$66,754	2.5%	**$7,966**	$2,623	203.7%
NOI	**$134,738**	$120,671	11.7%	**$115,932**	$111,258	4.2%	**$18,806**	$9,413	99.8%
Operating margin %	**63.8%**	63.5%	30 bps	**62.9%**	62.5%	40 bps	**70.2%**	78.2%	(800) bps

Apartment Revenue

Total apartment revenue for the year ended December 31, 2019, was $211.1 million, an increase of 11.1% over 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% for the year ended December 31, 2019, with strong leasing activity contributing to a 40 bps improvement in same property occupancy for the year and a 3.6% increase in average rental rates. As well, rental incentives for the year ended December 31, 2019, declined compared to the same period of 2018, as fewer incentives were offered given strong market conditions. Ancillary revenue also increased, including parking and laundry revenue.

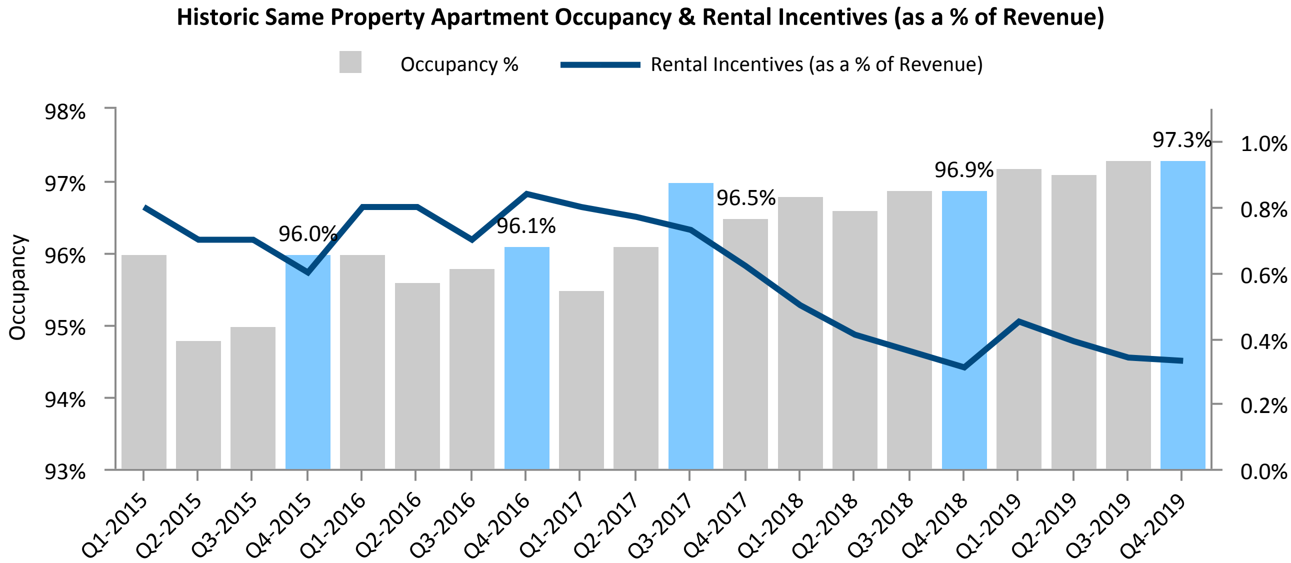
Apartment Occupancy Analysis by Core Market (% of Residential Rent) (1)

		Total Occupancy			Same Property Occupancy		
For the year ended December 31,	# of Units	**2019**	2018	Change (bps)	**2019**	2018	Change (bps)
Nova Scotia							
Halifax	5,753	**98.3%**	96.9%	140	**98.3%**	97.7%	60
Ontario							
Ottawa (2)	1,216	**93.0%**	96.8%	(380)	**97.1%**	97.4%	(30)
London	523	**97.5%**	96.0%	150	**97.5%**	96.0%	150
Cambridge-GTA	818	**98.5%**	94.6%	390	**98.5%**	98.6%	(10)
New Brunswick							
Moncton	1,804	**98.3%**	97.4%	90	**98.3%**	97.4%	90
Fredericton	1,529	**97.9%**	97.5%	40	**97.9%**	97.5%	40
Saint John	1,202	**96.8%**	96.6%	20	**96.8%**	96.6%	20
Newfoundland and Labrador							
St. John's	915	**91.5%**	93.0%	(150)	**91.5%**	93.0%	(150)
Prince Edward Island							
Charlottetown	986	**99.5%**	99.5%	—	**99.5%**	99.5%	—
Alberta							
Calgary	531	**94.7%**	94.5%	20	**93.1%**	93.3%	(20)
Edmonton	579	**89.8%**	86.1%	370	**88.4%**	86.3%	210
Other Atlantic	469	**97.1%**	95.3%	180	**97.1%**	95.3%	180
Total Apartments (weighted average)	16,325	**97.0%**	96.3%	70	**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 was undergoing initial lease-up during 2019.

For discussion on changes in occupancy levels during the quarter, refer to page 22 of this MD&A under section "Apartment Same Property NOI by Region".

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



Average Rent Analysis by Core Market

As at December 31,		**Average Rent**			**Same Property Average Rent**		
	# of Units	**2019**	2018	% Change	**2019**	2018	% Change
Nova Scotia							
Halifax	5,753	**$1,140**	$1,100	3.6%	**$1,095**	$1,055	3.8%
Ontario							
Ottawa	1,216	**$1,753**	$1,655	5.9%	**$1,704**	$1,646	3.5%
London	523	**$1,314**	$1,266	3.8%	**$1,314**	$1,266	3.8%
Cambridge-GTA	818	**$1,493**	$1,433	4.2%	**$1,475**	$1,411	4.5%
New Brunswick							
Moncton	1,804	**$926**	$868	6.7%	**$894**	$862	3.7%
Fredericton	1,529	**$1,018**	$960	6.0%	**$999**	$960	4.1%
Saint John	1,202	**$844**	$807	4.6%	**$844**	$807	4.6%
Newfoundland and Labrador							
St. John's	915	**$992**	$980	1.2%	**$992**	$980	1.2%
Prince Edward Island							
Charlottetown	986	**$1,011**	$1,005	0.6%	**$970**	$948	2.3%
Alberta							
Calgary	531	**$1,241**	$1,160	7.0%	**$1,212**	$1,169	3.7%
Edmonton	579	**$1,484**	$1,444	2.8%	**$1,452**	$1,449	0.2%
Other Atlantic	469	**$910**	$889	2.4%	**$910**	$889	2.4%
Total Apartments (weighted average)	16,325	**$1,126**	$1,076	4.6%	**$1,079**	$1,042	3.6%

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

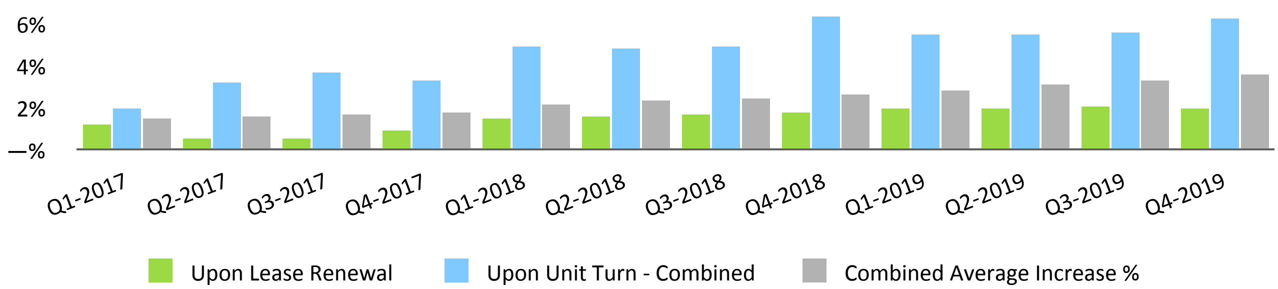
Same Property Rental Increases – Tenant Renewals versus Unit Turns

Killam turns approximately 30% to 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 3.6% in 2019, compared to 2.7% for the same period of 2018. Given strong fundamentals and Killam's rent optimization program, there has been notable appreciation 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:

For the years ended December 31,	**2019**		2018	
	Rental Increases	Turnovers and Renewals (1)	Rental Increases	Turnovers and Renewals (1)
Lease renewals	**2.1%**	**77.2%**	1.7%	75.5%
Unit turns - regular	**5.8%**	**25.6%**	4.7%	27.9%
Unit turns - repositioned	**28.5%**	**2.0%**	26.3%	0.8%
Weighted average rental increase	**3.6%**		2.7%	

(1) The percentage of units renewed and turned during the year is based on the number of units at the end of the year.

Apartments - Historical Same Property Rental Rate Growth



Apartment Expenses

Total operating expenses for the year ended December 31, 2019, were $76.4 million, a 10.1% increase over the same period of 2018, due primarily to incremental costs associated with recent acquisitions and developments, property tax increases and general operating cost increases. Killam's apartment operating margin increased by 30 bps during the year ended December 31, 2019, as higher occupancy and revenue optimization more than offset incremental operating costs.

Total same property operating expenses for the year ended December 31, 2019, were 2.5% higher compared to 2018. Property tax expense increased 2.5% for the year ended December 31, 2019. Killam continues to appeal tax assessment increases whenever possible to minimize this impact. Killam also realized general operating expense increases of 3.6% for the year ended December 31, 2019, due to general inflationary cost pressures, an expanded leasing team and increased insurance premiums, partially offset by operational efficiencies. In total, the same property operating margin improved by 40 bps during the year ended December 31, 2019.

Apartment Utility and Fuel Expenses - Same Property

For the years ended December 31,	**2019**	2018	% Change
Natural gas	**$6,466**	$6,044	7.0%
Electricity	**6,734**	6,955	(3.2)%
Water	**4,861**	4,750	2.3%
Oil & propane	**1,350**	1,433	(5.8)%
Other	**51**	60	(15.0)%
Total utility and fuel expenses	**$19,462**	$19,242	1.1%

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 5,200 units heated with electricity. Fuel costs associated with central natural gas or oil-fired heating plants are paid by Killam.

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

Utility and fuel expenses accounted for approximately 28% of Killam's total apartment same property operating expenses for the year ended December 31, 2019. Total same property utility and fuel expenses increased a modest 1.1% for the year ended December 31, 2019.

Same property natural gas expense increased by 7.0% for the year ended December 31, 2019. The increased costs compared to the prior year were primarily attributable to higher distribution rates and increases in commodity prices in Nova Scotia, New Brunswick and Ontario of 1.0%, 0.8% and 9.5%, respectively, in addition to higher consumption during the Q1-2019 heating season as a result of colder temperatures.

Electricity costs for the year ended December 31, 2019, were 3.2% lower than 2018, 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 2.3% for the year ended December 31, 2019, primarily due to municipal water rate increases across Killam's regions, partially offset by reduced volumes from Killam's water conservation initiatives. Since 2015, Killam has installed over 11,350 low-flow toilets, saving an estimated 700 million litres of water annually across the portfolio and generating approximately $1.4 million in water consumption savings.

Heating oil and propane costs decreased by 5.8% for the year ended December 31, 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.

Apartment Same Property NOI by Region

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Nova Scotia									
Halifax	**$71,435**	$68,216	4.7%	**($25,423)**	($24,459)	3.9%	**$46,012**	$43,757	5.2%
	71,435	68,216	4.7%	**(25,423)**	(24,459)	3.9%	**46,012**	43,757	5.2%
Ontario									
Ottawa	**11,638**	11,322	2.8%	**(3,724)**	(3,912)	(4.8)%	**7,914**	7,410	6.8%
London	**7,942**	7,563	5.0%	**(2,653)**	(2,593)	2.3%	**5,289**	4,970	6.4%
Cambridge-GTA	**12,344**	11,789	4.7%	**(3,954)**	(3,727)	6.1%	**8,390**	8,062	4.1%
	31,924	30,674	4.1%	**(10,331)**	(10,232)	1.0%	**21,593**	20,442	5.6%
New Brunswick									
Moncton	**18,170**	17,652	2.9%	**(8,081)**	(8,116)	(0.4)%	**10,089**	9,536	5.8%
Fredericton	**17,114**	16,509	3.7%	**(6,919)**	(6,846)	1.1%	**10,195**	9,663	5.5%
Saint John	**12,020**	11,601	3.6%	**(5,807)**	(5,657)	2.7%	**6,213**	5,944	4.5%
	47,304	45,762	3.4%	**(20,807)**	(20,619)	0.9%	**26,497**	25,143	5.4%
Newfoundland & Labrador									
St. John's	**10,025**	10,175	(1.5)%	**(3,094)**	(2,945)	5.1%	**6,931**	7,230	(4.1)%
	10,025	10,175	(1.5)%	**(3,094)**	(2,945)	5.1%	**6,931**	7,230	(4.1)%
Prince Edward Island									
Charlottetown	**10,339**	10,114	2.2%	**(4,157)**	(4,105)	1.3%	**6,182**	6,009	2.9%
	10,339	10,114	2.2%	**(4,157)**	(4,105)	1.3%	**6,182**	6,009	2.9%
Alberta									
Calgary	**3,380**	3,341	1.2%	**(1,089)**	(998)	9.1%	**2,291**	2,343	(2.2)%
Edmonton	**4,651**	4,600	1.1%	**(1,562)**	(1,485)	5.2%	**3,089**	3,115	(0.8)%
	8,031	7,941	1.1%	**(2,651)**	(2,483)	6.8%	**5,380**	5,458	(1.4)%
Other Atlantic locations	**5,313**	5,130	3.6%	**(1,976)**	(1,911)	3.4%	**3,337**	3,219	3.7%
	$184,371	$178,012	3.6%	**($68,439)**	($66,754)	2.5%	**$115,932**	$111,258	4.2%

Halifax

Halifax is Killam's largest rental market, contributing approximately 40% of apartment same property NOI for the year ended December 31, 2019. Same property apartment revenue increased 4.7% for the year ended December 31, 2019, due to a 3.8% increase in average rent and a 60 bps increase in occupancy to 98.3% for the year.

Total operating expenses for the year ended December 31, 2019, were 3.9% higher than the same period of 2018. The increased expense was driven by higher natural gas and fuel costs as a result of higher consumption and increased commodity pricing, higher property taxes and increased insurance premiums. The net impact was 5.2% growth in NOI for the year ended December 31, 2019.

Ontario

Killam's Ontario portfolio generated approximately 19% of apartment same property NOI for the year ended December 31, 2019. Revenue increased by 4.1% for the year ended December 31, 2019, driven by a 3.9% increase in average rental rates, improved occupancy in London, decreased rental incentives and increased parking revenue.

Total operating expenses increased a modest 1.0% compared to the same period of 2018. Increased insurance premiums and contract services costs were partially offset by lower advertising costs. In aggregate, same property NOI was 5.6% higher than the year ended December 31, 2018.

New Brunswick

Killam's apartments in Moncton, Fredericton and Saint John accounted for approximately 23% of apartment same property NOI for the year ended December 31, 2019. In aggregate, same property revenue increased 3.4% for the year ended December 31, 2019, following rental rate growth in Moncton, Fredericton and Saint John of 3.7%, 4.1% and 4.6%, respectively, and increased occupancy in all three regions.

Total operating expenses were 0.9% higher for the year ended December 31, 2019, compared to the same period in 2018, as higher natural gas costs and increased insurance premiums were partially offset by lower advertising and electricity costs.

Newfoundland and Labrador

Killam's St. John's properties accounted for approximately 6% of apartment same property NOI for the year ended December 31, 2019. Same property revenue decreased 1.5% for the year ended December 31, 2019, as compared to 2018. While rental rates have increased by 1.2%, occupancy was 150 bps lower for the year. 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 year ended December 31, 2019, were 5.1% higher than the same period of 2018. The increase in operating expenses was primarily due to higher staffing costs with an expanded leasing team in place to target the increase in vacancy. In addition, electricity costs were higher in 2019 due to a 6.8% average increase in electricity rates in Newfoundland effective July 1, 2018. In aggregate, same property NOI was 4.1% lower for the year ended December 31, 2019.

Prince Edward Island

Killam's Charlottetown portfolio contributed approximately 5% of apartment same property NOI for the year ended December 31, 2019. Charlottetown achieved 2.2% revenue growth for the year ended December 31, 2019, as rental rates grew 2.3% and occupancy remained strong at 99.5%.

Total operating expenses for the year ended December 31, 2019 were 1.3% higher compared to 2018. The increase was primarily due to higher contract services costs, increased property taxes and increased insurance costs. Overall, Charlottetown achieved 2.9% NOI growth for the year ended December 31, 2019, compared to the same period in 2018.

Alberta

Killam's Calgary properties accounted for approximately 2% of apartment same property NOI for the year ended December 31, 2019. Calgary achieved same property revenue increases of 1.2% for the year ended December 31, 2019, compared to the same period of 2018, due to rental rate growth of 3.7% partially offset by a 20 bps decrease in occupancy and an increase in rental incentives.

Total operating expenses for the year ended December 31, 2019, increased 9.1%, as a result of increased staffing costs and higher repairs and maintenance costs. Overall, Calgary saw a decrease in NOI of 2.2% for the year ended December 31, 2019.

Killam's Edmonton portfolio accounted for 3% of apartment same property NOI for the year ended December 31, 2019. Same property revenues increased 1.1% for the year ended December 31, 2019, as a result of a 0.2% increase in rental rates and a 210 bps increase in occupancy. The stabilization of the two Edmonton properties acquired in 2017, Waybury and Tisbury, has taken longer than expected as a result of the softness in the Edmonton economy. Management is targeting stabilization of these assets during 2020.

Same property operating expenses increased 5.2% for the year ended December 31, 2019. The increase in operating expenses was primarily due to the addition of on-site leasing staff and increased property tax assessments, partially offset by lower repairs and maintenance costs. Overall, Edmonton saw decreased NOI of 0.8% for the year ended December 31, 2019.

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

MHC Results

For the years ended December 31,									
	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$16,806**	$15,850	6.0%	**$15,932**	$15,523	2.6%	**$874**	$327	N/A
Property operating expenses	**6,342**	6,095	4.1%	**5,893**	5,827	1.1%	**449**	268	N/A
NOI	**$10,464**	$9,755	7.3%	**$10,039**	$9,696	3.5%	**$425**	$59	N/A
Operating margin %	**62.3%**	61.5%	80 bps	**63.0%**	62.5%	50 bps	**48.6%**	—%	—

The MHC segment generated 6.9% of Killam's NOI for the year ended December 31, 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 nine seasonal communities that earn approximately 60% of their NOI between July and September.

MHC same property revenue increased 2.6% for the year ended December 31, 2019, compared to the same period in 2018. Rents rose by 2.8%, to $261 per site from $254 per site in 2018, due primarily to rental increases at permanent communities as well as strong revenue growth at the seasonal communities. Occupancy for the year ended December 31, 2019, was 97.8%, compared to 97.9% in 2018.

Total same property expenses increased modestly by 1.1% for the year ended December 31, 2019, primarily due to increases in contract services and administration costs, partially offset by lower utility costs and property taxes. Overall, the same property MHC portfolio generated NOI growth of 3.5% for the year ended December 31, 2019, and saw a 50 bps improvement in same property operating margin to 63.0%.

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

Commercial Results

For the year ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$13,800**	$10,061	37.2%	**$897**	$904	(0.8)%	**$12,903**	$9,157	40.9%
Property operating expenses	**6,666**	4,775	39.6%	**383**	376	1.9%	**6,283**	4,399	42.8%
NOI	**$7,134**	$5,286	35.0%	**$514**	$528	(2.7)%	**$6,620**	$4,758	39.1%

Killam's commercial property portfolio contributed $7.1 million, or 4.7%, of Killam's total NOI for the year ended December 31, 2019. Killam's commercial property portfolio contains 771,715 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 89.6% for the year ended December 31, 2019, compared to 97.1% in 2018. The decrease in occupancy is primarily due to the redevelopment of the 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 were $0.5 million lower in 2019 compared to 2018. Following the lease-up of the renovated space at the Brewery Market, Management expects NOI to increase by 15% to 20%, from pre-renovated levels.

In 2019, Killam 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 89.4% occupied in 2019. 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.

In June 2019, Killam 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

For the years ended December 31,	2019	2018	% Change
	$6,059	$965	527.9%

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 527.9% increase for the year ended December 31, 2019, was due to net insurance proceeds ($5.8 million) related to a fire that occurred in July 2019 at a 29-unit apartment building.

Financing Costs

For the years ended December 31,	2019	2018	% Change
Mortgage, loan and construction loan interest	**$41,954**	$37,674	11.4%
Interest on credit facilities	**1,266**	1,075	17.8%
Interest on Exchangeable Units	**2,727**	2,453	11.2%
Amortization of deferred financing costs	**3,093**	4,354	(29.0)%
Unrealized loss on derivative asset	**235**	129	82.2%
Amortization of loss on interest rate hedge	**—**	37	(100.0)%
Amortization of fair value adjustments on assumed debt	**137**	95	44.2%
Interest on lease liabilities	**298**	—	N/A
Capitalized interest	**(2,267)**	(3,169)	(28.5)%
	$47,443	$42,648	11.2%

Total financing costs increased $4.8 million, or 11.2%, for the year ended December 31, 2019, as compared to the same period of 2018.

Mortgage, loan and construction loan interest expense increased $4.3 million, or 11.4%, for the year ended December 31, 2019, compared to 2018. Killam's mortgage, loan and construction loan liability balance increased by $110.1 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 year ended December 31, 2019, was 2.66%, 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 decreased 29.0% for the year ended December 31, 2019, as management had expected, due to timing of recognition of CMHC premiums linked to refinancings in 2018 resulting in higher expense in that year. Based on the current portfolio, normalized deferred financing costs are expected to be approximately $3.0 million per year. This expense may fluctuate with refinancings.

Capitalized interest decreased $0.9 million for the year ended December 31, 2019, compared to the same period 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.

The interest on lease liabilities 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 12 of the consolidated financial statements for the year ended December 31, 2019, for further details.

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

Depreciation Expense

For the years ended December 31,

	2019	2018	% Change
	$720	$859	(16.2)%

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 year ended December 31, 2019, compared to 2018, was primarily due to the timing of depreciation of software costs.

Administration Expenses

For the years ended December 31,

	2019	2018	% Change
Administration	**$14,881**	$14,201	4.8%
As a percentage of total revenues	**6.0%**	6.5%	(50) 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 year ended December 31, 2019, total administration expenses increased $0.7 million, or 4.8%, compared to 2018, due to increased software 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 6.0% for 2019, 50 bps lower than 2018.

Fair Value Adjustments

For the years ended December 31,

	2019	2018	% Change
Investment properties	**$244,130**	$134,803	81.1%
Deferred unit-based compensation	**(1,590)**	(553)	(187.5)%
Exchangeable units	**(12,461)**	(6,373)	(95.5)%
	$230,079	$127,877	79.9%

Killam recognized $244.1 million in fair value gains on investment properties for the year ended December 31, 2019, recognizing the strength of the accelerated revenue growth achieved over the year and overall strong operating performance in Killam's core markets, as well as cap-rate compression in both Killam's apartment and MHC portfolios. Recent transactions support cap-rate compression for Killam's Halifax and Ontario apartments, as well as Killam's MHC portfolio.

RTUs governed by Killam's RTU Plan are awarded to certain members of Management as a portion of their compensation. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs. This aligns the interests of Management and the Trustees with those of unitholders. For the year ended December 31, 2019, there was an unrealized fair value adjustment of $1.6 million, versus a $0.6 million adjustment in 2018, due to appreciation in the market price of the underlying Killam Trust Units.

The exchangeable units are redeemable on a one-for-one basis into trust units at the option of the holder and distributions paid on exchangeable units are consistent with distributions paid to Killam's unitholders. The fair value of the exchangeable units is based on the trading price of Killam's trust units. For the year ended December 31, 2019, there was an unrealized adjustment of $12.5 million, compared to an unrealized adjustment of $6.4 million in 2018, due to an appreciation in the market price of Killam's trust units.

Loss on Disposition

For the years ended December 31,			
	2019	2018	% Change
	$1,269	$197	544.2%

During the year, Killam disposed of a development site in Edmonton and two apartment properties located in Ottawa. The loss on disposition 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

For the years ended December 31,			
	2019	2018	% Change
	$40,636	$31,478	29.1%

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 $9.2 million for the year ended December 31, 2019, compared to 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)**
For the years ended December 31,	**2019**	2018	% Change	**2019**
Trust units	**91,565**	83,122	10.2%	**97,863**
Exchangeable units	**4,154**	3,827	8.5%	**4,154**
Basic number of units	**95,719**	86,949	10.1%	**102,017**
Plus:				
Units under RTU plan	**195**	236	(17.4)%	**—**
Diluted number of units	**95,914**	87,185	10.0%	**102,017**

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 years ended December 31, 2019 and 2018 are calculated as follows:

	Years ended December 31,		
	2019	2018	% Change
Net income	**$283,525**	$175,171	61.9%
Fair value adjustments	**(230,079)**	(127,877)	79.9%
Loss on disposition	**1,257**	197	538.1%
Non-controlling interest	**11**	(27)	(140.7)%
Internal commercial leasing costs	**317**	131	142.0%
Deferred tax expense	**40,636**	31,478	29.1%
Interest expense on exchangeable units	**2,727**	2,453	11.2%
Net insurance proceeds (1)	**(5,022)**	—	N/A
Unrealized loss on derivative liability	**235**	129	82.2%
Depreciation on owner-occupied building	**147**	153	(3.9)%
Change in principal related to lease liabilities	**130**	—	N/A
FFO	**$93,884**	$81,808	14.8%
FFO unit - basic	**$0.98**	$0.94	4.3%
FFO unit - diluted	**$0.98**	$0.94	4.3%
Weighted average number of units - basic (000s)	**95,719**	86,949	10.1%
Weighted average number of units - diluted (000s)	**95,914**	87,185	10.0%

(1) The FFO adjustment for net insurance proceeds relates to proceeds covering property damage, net of demolition costs.

Killam earned FFO of $93.9 million, or $0.98 per unit (diluted), for the year ended December 31, 2019, compared to $81.8 million, or $0.94 per unit (diluted), for the year ended December 31, 2018. FFO growth is primarily attributable to contributions from acquisitions and completed developments ($8.8 million), same property NOI growth ($5.0 million) and lower deferred financing costs ($1.3 million). These increases were partially offset by higher interest expense ($1.2 million), lower property revenue related to the timing of recognition of forgivable government loans ($1.1 million) higher administration costs ($0.7 million) and a 10.0% increase in the number of weighted average number of units outstanding.

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

Adjusted Funds from Operations

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

Details of Killam's total actual capital expenditures by category are included in the Capital Improvements section on page 37, and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 44 of this MD&A.

Calculating Maintenance Capex Reserve for AFFO

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

Maintenance Capex Reserve - Apartments

	2019	2018	2017
Total capital investments	$52,861	$39,912	$26,959
Value-enhancing capital investment			
Building	(17,407)	(13,004)	(5,365)
Suite upgrades	(18,718)	(12,361)	(9,753)
Equipment & other	(1,987)	(866)	(749)
	(38,112)	(26,231)	(15,867)
Maintenance capex	**$14,749**	**$13,681**	**$11,092**
Maintenance capex - % of total capital	28%	34%	41%
Number of units [(1)]	15,513	14,685	13,712
Maintenance capex per unit	$951	$932	$809
Maintenance capex - three-year average		**$897**	

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

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

Maintenance capex includes all structural work and suite renovation investment required to maintain current revenues. For the year ended December 31, 2019, Killam updated its maintenance capex reserve to reflect the actual capital investment for the most recent three years (2017 - 2019), which is equivalent to approximately $897 per unit. Based on this calculation, Management has selected $900 per unit for its maintenance capex reserve for 2019, which is consistent with the 2018 reserve of $900 per unit. Management will maintain this reserve in its calculation of AFFO throughout 2020 until the three-year average is updated at year-end with actual results.

The allocations above were the result of a detailed review of Killam's historical capital investment. Significant judgment was required to allocate capital between value-enhancing and maintenance activities. Management believes these allocations are reflective of Killam's capital program. The maintenance capex as a percentage of total capital investment decreased in 2019, and this reflects KIllam's increased investment in its suite repositioning program as well as its energy efficiency program, both of which are value enhancing. In 2019, approximately 28% of annual capital investment was attributable to maintaining and sustaining properties.

Maintenance Capex Reserve - MHCs and Commercial

The capital investment specific to the MHC portfolio was also reviewed for the three years ended December 31, 2019, and categorized into value-enhancing and maintenance capex. Value-enhancing capital investment includes site expansions, land improvements and NOI-enhancing water and sewer upgrades. Maintenance capex includes capital investment related to roads and paving, as well as the majority of water and sewer capital invested to maintain the infrastructure in each community. On a per site basis, maintenance capex has ranged from $295 to $377 over the past three years. Management selected $300 per MHC site for its maintenance capex reserve for 2019, consistent with its 2018 reserve of $300 per site.

Killam began taking a maintenance capex allowance for its commercial properties in 2018. Based on the expected average annual maintenance capital investment in these assets, Killam has taken an annual capex reserve of $0.70 per square foot.

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

For the years ended December 31, 2019			
	2019	2018	% Change
FFO	**$93,884**	$81,808	14.8%
Maintenance capital expenditures			
Apartments	**(13,953)**	(13,216)	5.6%
MHCs	**(1,810)**	(1,731)	4.6%
Commercial	**(474)**	(289)	64.0%
Commercial straight-line rent adjustment	**(423)**	(143)	195.8%
Commercial leasing costs	**(456)**	(154)	196.1%
AFFO	**$76,768**	$66,275	15.8%
AFFO per unit - basic	**$0.80**	$0.76	5.3%
AFFO per unit - diluted	**$0.80**	$0.76	5.3%
AFFO payout ratio - diluted [1]	**82%**	84%	(200) bps
Weighted average number of units - basic (000s)	**95,719**	86,949	10.1%
Weighted average number of units - diluted (000s)	**95,914**	87,185	10.0%

[1] Based on Killam's annual distribution of $0.65666 for the year ended December 31, 2019, and $0.63664 for the year ended December 31, 2018.

The payout ratio of 82% for the year ended December 31, 2019, has improved 200 bps from the payout ratio of 84% for the year ended December 31, 2018. The improvement is attributable to a 15.8% increase in AFFO driven by contributions from acquisitions and developments and same property NOI growth, partially offset by the impact of the increase in the weighted average number of units outstanding.

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

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

Adjusted Cash Flow from Operations

ACFO was introduced in February 2017 in REALpac's "White Paper on Adjusted 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 consolidated statement of cash flows for the year ended December 31, 2019 and 2018) to ACFO is as follows:

For the years ended December 31,

	2019	2018	% Change
Cash provided by operating activities	**$95,208**	$89,738	6.1%
Adjustments:			
Changes in non-cash working capital not indicative of sustainable cash flows	**2,049**	(1,245)	264.6%
Maintenance capital expenditures			
Apartments	**(13,953)**	(13,216)	5.6%
MHCs	**(1,810)**	(1,731)	4.6%
Commercial	**(474)**	(289)	64.0%
Commercial leasing costs	**(264)**	(143)	84.6%
Amortization of deferred financing costs	**(3,093)**	(4,354)	(29.0)%
Interest expense related to lease liability	**(133)**	—	N/A
Non-controlling interest	**(11)**	(12)	(8.3)%
ACFO	**$77,519**	$68,748	12.8%
Distributions declared [1]	**63,805**	56,321	13.3%
Excess of ACFO over cash distributions	**$13,714**	$12,427	10.4%
ACFO payout ratio - diluted [2]	**82%**	82%	— bps

[1] Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 43.

[2] Based on Killam's annual distribution of $0.65666 for the year ended December 31, 2019, and $0.63664 for the year ended December 31, 2018.

Killam's ACFO payout ratio is 82% for the year ended December 31, 2019, consistent with the payout ratio for the year ended December 31, 2018. For the year ended December 31, 2019, Killam retained $13.7 million of adjusted cash flow from operations to fund future growth, including investments in NOI-enhancing capital upgrades, acquisitions and developments.

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.

For the years ended December 31,

	2019	2018
Net income	**$283,525**	$175,171
Cash provided by operating activities	**$95,208**	$89,738
Total distributions declared	**$63,805**	$56,321
Excess of net income over total distributions declared	**$219,720**	$118,850
Excess of net income over net distributions paid	**$238,253**	$133,591
Excess of cash provided by operating activities over total distributions declared	**$31,403**	$33,417

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

PART VII

Investment Properties

As at December 31,

	2019	2018	% Change
Investment properties	**$3,234,410**	$2,701,502	19.7%
Investment properties under construction ("IPUC")	**46,867**	37,163	26.1%
Land for development	**39,327**	61,028	(35.6)%
	$3,320,604	$2,799,693	18.6%

Continuity of Investment Properties

As at December 31,

	2019	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	**185,763**	248,186	(25.2)%
Transfer to assets held for sale	**(15,099)**	—	N/A
Transfer from IPUC	**36,215**	104,283	(65.3)%
Impact of right-of-use asset	**1,804**	—	N/A
Capital expenditures and development costs [1]	**71,495**	46,488	53.8%
Fair value adjustment - Apartments	**208,624**	118,601	75.9%
Fair value adjustment - MHCs	**38,540**	5,271	631.2%
Fair value adjustment - Other	**(1,549)**	7,301	(121.2)%
Balance, end of period	**$3,234,410**	$2,701,502	19.7%

[1] Development costs are costs incurred related to development projects subsequent to when they were transferred from IPUC to investment properties.

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

For the years ended December 31,

		2019			2018	
Capitalization Rates	**Low**	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**3.50%**	**8.00%**	**4.76%**	3.75%	8.00%	5.15%
MHCs	**5.00%**	**6.50%**	**5.65%**	5.75%	8.00%	6.76%

Killam's weighted average cap-rate for its apartment and MHC portfolios as at December 31, 2019 was 4.76% and 5.65%, a decrease of 39 bps and 111 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**
59 Irvin	Kitchener, ON	21-Jun-19	100%	Development land	—	**—**	**150**
Dieppe Village [3]	Moncton, NB	27-Jun-19	100%	Apartment & retail	127	**28,000**	**900**
150 Lian	Fredericton, NB	20-Aug-19	100%	Apartment		**9,250**	**—**
690 University Ave	Charlottetown, PE	15-Oct-19	50%	Retail		**1,150**	**—**
Oceanic	Shediac, NB	1-Nov-19	100%	Seasonal campground		**3,800**	**—**
125 & 145 Canaan	Moncton, NB	22-Nov-19	100%	Apartment		**9,520**	**—**
The Link	Edmonton, AB	25-Nov-19	100%	Apartment		**31,500**	**—**
Total Acquisitions						**184,970**	**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 commercial space ($6.6 million).

11 Harold Doherty

On April 18, 2019, Killam completed the acquisition of this 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 352,450 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. On October 15, 2019, Killam also jointly acquired an adjacent parcel of land with two commercial tenants.

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 anchor IGA-branded 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%.

125 & 145 Canaan

On November 22, 2019, Killam completed the acquisition of a 48-unit apartment building in Dieppe, NB, for $9.5 million, representing an all-cash yield of 5.0%.

The Link

On November 25, 2019, Killam completed the acquisition of a 105-unit apartment building in Edmonton, AB, for $31.5 million, representing an all-cash yield of 4.5%.

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

2019 Dispositions - Investment Properties

Property	Location	Disposition Date	Ownership Interest	Property Type	Units	Sale Price [1] Income-producing Properties	Sale Price [1] 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.

Investment Properties Under Construction

As at December 31,

	2019	2018	% Change
Balance, beginning of period	**$37,163**	$80,226	(53.7)%
Fair value adjustment	**774**	4,919	(84.3)%
Capital expenditures	**29,341**	53,336	(45.0)%
Interest capitalized	**754**	1,692	(55.4)%
Transfer to investment properties	**(36,215)**	(104,283)	(65.3)%
Transfer from land for development	**15,050**	1,273	1,082.2%
Balance, end of period	**$46,867**	$37,163	26.1%

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. Developments underway as at December 31, 2019 include:

Property	Ownership	Number of Units [1]	Project Budget (millions) [3]	Start Date	Estimated Year of Completion	Anticipated All-cash Yield
Shorefront	100%	78	$22.0	2018	2020	5.25% - 5.5%
10 Harley Street	100%	38	$10.4	2019	2020	5.25% - 5.5%
Latitude	50%	104	$43.5	2019	2021	5.0% - 5.25%
The Kay	100%	128	$56.0	2019	2021	4.75% - 5.0%
Total [2]		348	$131.9			

(1) Represents Killam's ownership interest and number of units in the development.
(2) Killam also holds a 10% interest in the Nolan Hill development project in Calgary, totaling 23 units, which is included in IPUC.
(3) Project budget excluding land costs.

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 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 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 in the range of 5.0% - 5.25%. The building is currently 97% leased. Construction of Latitude, the second phase of the development, containing 209 units, broke ground during the second quarter of 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).

Shorefront
During 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 in the range of 5.25% - 5.5%, 50–75 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.

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 in the range of 4.75% - 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)

The development broke ground during the third quarter and is expected to take 24 months to complete.

10 Harley Street
In July 2019, there was a fire at Killam's three-storey, 29-unit apartment building located in Charlottetown, resulting in loss of the building. Killam commenced reconstruction in September 2019 and increased the building size to four storeys and 38 units. The budget for the redevelopment is approximately $10.4 million ($264,000/unit). Insurance proceeds from the loss will cover a portion of the reconstruction costs.

Nolan Hill
Killam's Nolan Hill development located in Calgary, of which Killam has a 10% interest, broke ground during Q4-2019 and is expected to be completed in 2021. Killam has a commitment to acquire the remaining 90% interest in the building upon completion of Phase 1. The acquisition price upon completion is fixed at $55.0 million.

Land for Development

As at December 31,

	2019	2018	% Change
Balance, beginning of period	**$61,028**	$28,165	116.7%
Fair value adjustment	**(1,663)**	1,800	(192.4)%
Capital expenditures	**5,700**	3,972	43.5%
Interest capitalized	**1,513**	1,477	2.4%
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	**$39,327**	$61,028	(35.6)%

During 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 the year.

Killam has a robust development pipeline. Seventy percent 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 $850 million pipeline at a 100 bps spread should create approximately $200 million in NAV growth for unitholders. Killam currently 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
Weber Scott Pearl	Kitchener, ON	100%	170	In design and approval process	2022
Westmount Place (Phase 1)	Waterloo, ON	100%	114	In design	2022
Developments expected to start in 2022-2026					
Haviland Street	Charlottetown, PE	100%	99	In design	2022
Gloucester City Centre (Phase 3-4)	Ottawa, ON	50%	200	In design	2024
Westmount Place (Phase 2-5)	Waterloo, ON	100%	908	In design	2028
Additional future development projects					
Gloucester City Centre (Phase 5)	Ottawa, ON	50%	100	In design and approval process	TBD
Carlton Terrace	Halifax, NS	100%	104	In design and approval process	TBD
Kanata Lakes	Ottawa, ON	50%	40	In design and approval process	TBD
Christie Point	Victoria, BC	100%	312	Future development	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			**2,644**		

(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) In addition, Killam owns a 10% interest in a four-phase 829-unit development project in Calgary, Nolan Hill. Phase 1 is currently under construction.

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

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 December 31, 2019. The property has a carrying value of $14.2 million (Killam's 40% interest).

During the third quarter, Killam completed the sale of one parcel of land in Edmonton previously classified as held for sale.

Capital Improvements

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

During the year ended December 31, 2019, Killam invested $62.0 million, compared to $46.5 million for the year ended December 31, 2018. Killam expects to invest between $70 and $75 million during 2020 in capital improvements. This increase reflects additional capital allocated to Killam's expanded 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 and curb appeal investments at Westmount Place.

For the years ended December 31,

	2019	2018	% Change
Apartments [(1)]	**$52,861**	$39,912	32.4%
MHCs	**5,016**	3,666	36.8%
Commercial	**4,162**	2,910	43.0%
	$62,039	$46,488	33.5%

(1) 2019 apartment capital improvements excludes $9.5 million in capital expenditures related to new developments and recent acquisitions included in Killam's investment property continuity schedule in note 5 of the consolidated financial statements.

Apartments - Capital Investment

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

For the years ended December 31,

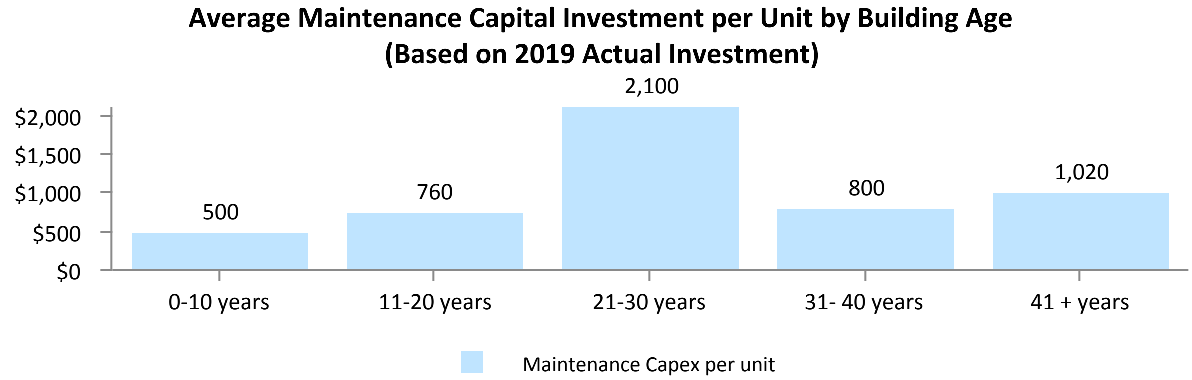
	2019	2018	% Change
Building improvements	**$25,881**	$22,222	16.5%
Suite renovations	**18,515**	12,421	49.1%
Appliances	**2,700**	1,625	66.2%
Boilers and heating equipment	**3,496**	2,246	55.7%
Other	**2,269**	1,398	62.3%
Total capital invested	**$52,861**	$39,912	32.4%
Average number of units outstanding [(1)]	**15,513**	14,685	5.6%
Capital invested - $ per unit	**$3,408**	$2,718	25.4%

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

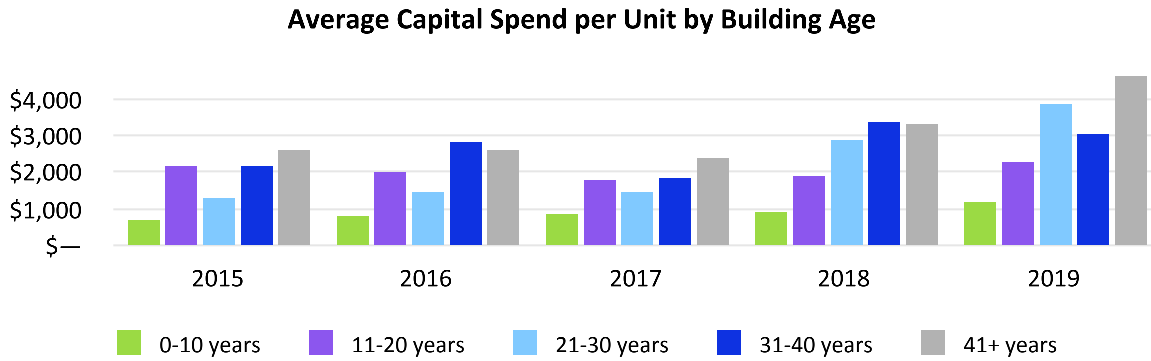
Killam invested $3,408 per unit for the year ended December 31, 2019, compared to $2,718 per unit for the year ended December 31, 2018. This increase is attributable to Killam's additional capital investment related to value-enhancing improvements at its properties, which is supporting accelerating rental 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 2020 forecasted NOI, were built in the past 10 years, and the average age of Killam's portfolio is 28 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 2019 maintenance capex for properties built in the past 10 years was $500 per unit vs. $1,020 per unit for units that were 40+ years old.



As well, the chart below highlights that the total capital investment per unit is less for newer properties (built in the last 10 years), averaging $1,220 per unit, compared to $4,460 per unit for buildings over 40 years old.



Building Improvements

Of the $52.9 million total capital investment in the apartment segment for the year ended December 31, 2019, approximately 49% was invested in building improvements, compared to 56% of the total capital spend for the year ended December 31, 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 year-over-year 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 $18.5 million in suite renovations during the year ended December 31, 2019, a 49.1% increase over the total investment of $12.4 million for the year ended December 31, 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. During 2019, Killam has completed upgrades to 304 units, with an average investment of approximately $25,000 per suite, an average ROI of 13%.

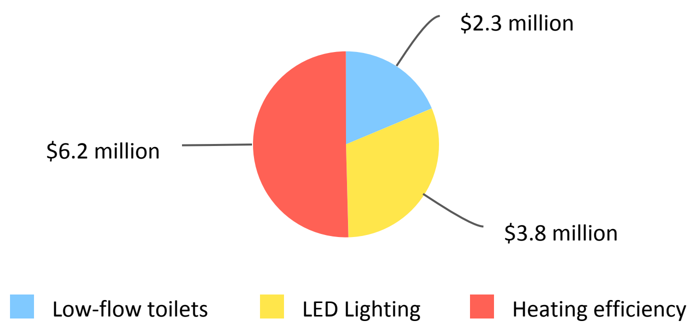
Killam plans to complete 500 suite repositions in 2020. The opportunity to reposition units within Killam's current portfolio totals approximately 3,000 units, which could generate an estimated $10.0 million in additional annualized revenue and an approximate $195 million increase in NAV.

Expanding our Sustainability Focus

Killam continued to execute on its energy efficiency plan during the year, in 2020, Killam plans to invest $6.0 million in additional energy efficiency initiatives, which will include the installation of photovoltaic solar panels at select properties, water conservation projects and heating efficiencies. In addition to its expansive energy projects, Killam expects to augment its sustainability programs and improve its Global Real Estate Sustainability Benchmark (“GRESB”) rating. Killam is committed to lowering, benchmarking with third-party validation and reporting on its greenhouse gas emissions.

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

Energy Investment by Type
(For the three years ended December 31, 2019)



Over the last three years, Killam has invested $2.3 million in low-flow toilets, $3.8 million in the installation of LED lighting and $6.2 million in heating efficiency projects, including condensing gas boilers, system recommissioning, insulation upgrades and thermostat replacements.

MHCs - Capital Investment

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

For the years ended December 31,

	2019	2018	% Change
Water and sewer upgrades	**$1,946**	$1,625	19.8%
Site expansion and land improvements	**465**	375	24.0%
Other	**1,507**	972	55.0%
Roads and paving	**748**	592	26.4%
Equipment	**350**	102	243.1%
Total capital invested - MHCs	**$5,016**	$3,666	36.8%
Average number of sites	**5,486**	5,252	4.5%
Capital invested - $ per site	**$914**	$698	30.9%

Management expects to invest between $700 and $950 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 investment during the year ended December 31, 2019 was $5.0 million, up from $3.7 million for the year ended December 31, 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.

Commercial - Capital Investment

During 2019, KIllam invested an additional $4.2 million in its commercial portfolio, up from $2.9 million for the year ended December 31, 2018 . This investment relates primarily to significant upgrades at the Brewery Market as Killam continues to reposition this property, as well as common area upgrades at Westmount Place.

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

Mortgages and Other Loans

The table below outlines Killam's key debt metrics:

As at December 31,	**2019**	2018	Change
Weighted average years to debt maturity	**4.5**	4.4	0.1 years
Total debt to total assets	**43.4%**	49.8%	(640) bps
Interest coverage	**3.20x**	3.22x	(0.6)%
Debt service coverage	**1.57x**	1.58x	(0.6)%
Debt to normalized EBITDA (1)	**10.15x**	10.62x	(4.4)%
Weighted average mortgage interest rate	**2.90%**	2.95%	(5) bps
Weighted average interest rate of total debt	**2.92%**	3.10%	(18) 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 December 31, 2019, was 2.90%, 5 bps lower compared to the rate as at December 31, 2018.

Total debt as a percentage of total assets was 43.4% as at December 31, 2019, compared to 49.8% as 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 December 31, 2019, versus December 31, 2018, a reduction in variable rate debt and an increase in unencumbered assets. Killam does anticipate a slight uptick in the debt to total assets ratio in Q1-2020, when debt is placed on an acquisition completed in all-cash late in 2019. 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 December 31, 2019, would increase the debt as a percentage of assets by 80 bps.

Refinancings
For the year ended December 31, 2019, Killam refinanced the following mortgages:

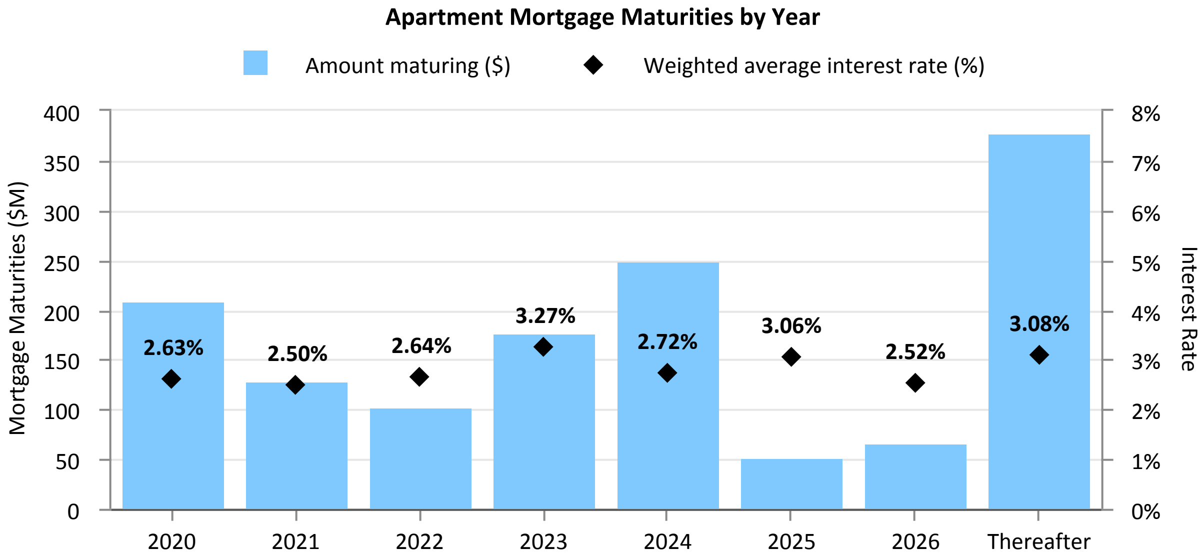
	Mortgage Debt Maturities		**Mortgage Debt on Refinancing**		**Weighted Average Term**	**Net Proceeds**
Apartments	$154,058	2.78%	$218,584	2.61%	6.2 years	$64,526
MHCs	9,368	4.21%	13,820	3.49%	5.0 years	4,452
	$163,426	2.86%	$232,404	2.66%	6.1 years	$68,978

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 & Commercial**		**Total**	
Year of Maturity	**Balance December 31**	**Weighted Avg Int. Rate %**	**% CMHC Insured**	**Balance December 31**	**Weighted Avg Int. Rate %**	**Balance December 31 (1)**	**Weighted Avg Int. Rate %**
2020	$209,510	2.63%	49.2%	$13,614	3.45%	$223,124	2.68%
2021	129,017	2.50%	85.8%	12,603	3.55%	141,620	2.59%
2022	103,122	2.64%	70.8%	22,829	3.67%	125,951	2.82%
2023	176,531	3.27%	80.5%	32,701	3.77%	209,232	3.35%
2024	248,860	2.72%	94.7%	13,659	3.49%	262,519	2.76%
Thereafter	497,185	3.00%	100.0%	—	—%	497,185	3.00%
	$1,364,225	2.85%	85.2%	$95,406	3.63%	$1,459,631	2.90%

(1) Excludes unamortized deferred financing costs and $10.8 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at December 31, 2019.

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



Access to mortgage debt is essential in refinancing maturing debt and financing acquisitions. Management has diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered maturity dates to manage interest rate risk. Management anticipates continued access to mortgage debt for both acquisitions and refinancings. Access to CMHC-insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee and therefore are able to lend at more favorable rates. As at December 31, 2019, approximately 85.2% of Killam's apartment mortgage debt were CMHC-insured (79.6% of total mortgages, as MHC and commercial 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 2.77% as at December 31, 2019 (December 31, 2018 - 2.95%).

The following tables present the NOI for properties that are available to Killam to refinance at debt maturity in 2020 and 2021:

2020 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	41	$21,560	$212,031
MHCs with debt maturing	4	957	6,075
	45	$22,517	$218,106

2021 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	37	$16,543	$126,713
MHCs with debt maturing	4	1,061	5,987
	41	$17,604	$132,700

Future Contractual Debt Obligations

As at December 31, 2019, the timing of Killam's future contractual debt obligations is as follows:

Twelve months ending December 31,	Mortgage and Loans Payable	Construction Loans	Total
2020	$276,568	$23,120	$299,688
2021	173,589	—	173,589
2022	149,355	1,731	151,086
2023	212,901	—	212,901
2024	238,491	—	238,491
Thereafter	419,529	—	419,529
	$1,470,433	**$24,851**	**$1,495,284**

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

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 December 31, 2019, Killam had assets with a carrying value of $84.1 million pledged as first mortgage ranking and $353.2 million pledged as second mortgage ranking to the line. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 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 December 31, 2019, Killam had assets with a carrying value of $2.2 million pledged as collateral (December 31, 2018 - $2.1 million). The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2019.

As at December 31, 2019	Maximum Loan Amount [1]	Amount Drawn	Letters of Credit	Amount Available
$70.0 million demand facility	$90,000	$—	$—	$90,000
$5.0 million demand facility	5,000	—	1,282	3,718
Total	**$95,000**	**$—**	**$1,282**	**$93,718**

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.

Construction Loans

As at December 31, 2019, Killam had access to two floating rate non-revolving demand construction loans, for the purpose of financing development projects, totaling $43.5 million. Payments are made monthly on an interest-only basis. The construction loans have an interest rate of 125–201 bps above BAs. Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages. The underlying assets with a carrying value of $62.6 million are pledged as collateral against these loans.

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

Unitholders' Equity

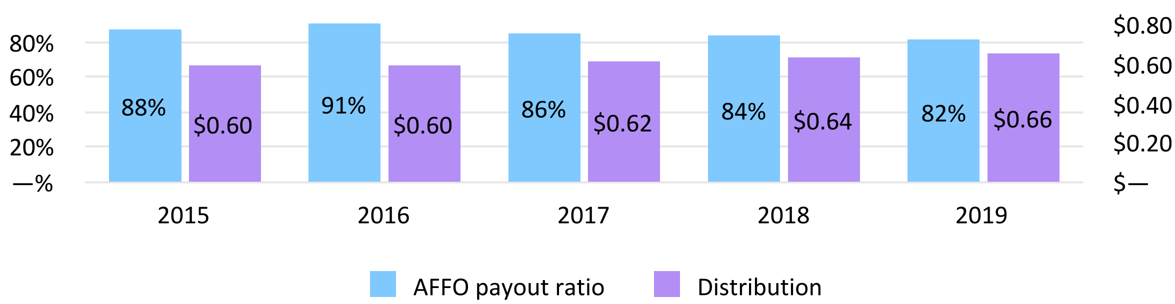
As Killam is an open-ended mutual fund trust, unitholders of trust units are entitled to redeem their trust units at any time at prices determined and payable in accordance with the conditions specified in Killam's DOT. Consequently, under IFRS, trust units are defined as financial liabilities; however, 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 year ended December 31, 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.

Killam's Annual Distribution and AFFO Payout Ratio



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

Distribution Reinvestment Plan and Net Distributions Paid

For the years ended December 31,

	2019	2018	% Change
Distributions declared on trust units	**$60,795**	$53,564	13.5%
Distributions declared on exchangeable units	**2,727**	2,453	11.2%
Distributions declared on awards outstanding under RTU plan	**283**	304	(6.9)%
Total distributions declared	**$63,805**	$56,321	13.3%
Less:			
Distributions on trust units reinvested	**(18,250)**	(14,437)	26.4%
Distributions on RTUs reinvested	**(283)**	(304)	(6.9)%
Net distributions paid	**$45,272**	$41,580	8.9%
Percentage of distributions reinvested	**29.0%**	26.2%	

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 $225 million as at December 31, 2019.

(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 consolidated statement of financial position and (ii) the historical cost of Killam's assets. Total debt as a percentage of assets as at December 31, 2019 was 43.4%.

PART VIII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property revenue	$62,685	$62,834	$59,139	$57,091	$58,041	$55,532	$52,937	$49,449
NOI	$39,932	$41,349	$37,510	$33,545	$36,889	$36,484	$33,916	$28,423
Net income	$126,805	$46,839	$82,789	$27,092	$44,273	$27,120	$34,864	$68,914
FFO	$24,997	$26,247	$23,752	$18,887	$20,611	$23,355	$21,035	$16,807
FFO per unit - diluted	$0.25	$0.27	$0.25	$0.21	$0.23	$0.26	$0.25	$0.20
AFFO per unit - diluted	$0.21	$0.23	$0.20	$0.16	$0.18	$0.22	$0.20	$0.16
Weighted average units - diluted (000s)	99,781	96,044	95,807	91,938	89,517	89,176	85,236	84,790

Killam's total property revenue for the three months ended December 31, 2019 was $62.7 million, an 8.0% increase over the same period in 2018, due to the contributions from recent acquisitions, as well as increased same property revenue. NOI increased 8.2% in Q4-2019, compared to Q4-2018. Net income increased by $82.5 million in the quarter due to increased NOI and a net $115.2 million of fair value gains in Q4-2019, compared to net fair value gains of $36.1 million in Q4-2018.

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

Q4 Consolidated Results

For the three months ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$62,685**	$58,041	8.0%	**$50,631**	$48,941	3.5%	**$12,054**	$9,100	32.5%
Property operating expenses									
General operating expenses	**9,947**	8,993	10.6%	**8,154**	7,726	5.5%	**1,793**	1,267	41.5%
Utility and fuel expenses	**5,360**	5,639	(4.9)%	**4,622**	4,688	(1.4)%	**738**	951	(22.4)%
Property taxes	**7,446**	6,520	14.2%	**5,674**	5,574	1.8%	**1,772**	946	87.3%
Total operating expenses	**$22,753**	$21,152	7.6%	**$18,450**	$17,988	2.6%	**$4,303**	$3,164	36.0%
NOI	**$39,932**	$36,889	8.2%	**$32,181**	$30,953	4.0%	**$7,751**	$5,936	30.6%
Operating margin %	**63.7%**	63.6%	10 bps	**63.6%**	63.2%	40 bps	**64.3%**	65.2%	(90) bps

For the three months ended December 31, 2019, Killam recognized strong total portfolio performance. Revenue grew 8.0%, offset by total operating expense increases of 7.6% due to inflationary pressures and the increased size of Killam's portfolio. In aggregate, NOI increased 8.2% for the three months ended December 31, 2019. Consolidated same property revenue grew 3.5% for the three months ended December 31, 2019, compared to the same period of 2018. Total same property operating expenses increased by 2.6%, overall resulting in consolidated same property NOI 4.0% higher in Q4-2019, compared to Q4-2018.

Q4 Same Property NOI

For the three months ended December 31,

	Apartments			MHCs			Commercial		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$46,855**	$45,206	3.6%	**$3,567**	$3,506	1.7%	**$209**	$229	(8.7)%
Property operating expenses									
General operating expenses	**7,158**	6,759	5.9%	**942**	920	2.4%	**54**	47	14.9%
Utility and fuel expenses	**4,182**	4,252	(1.6)%	**427**	423	0.9%	**13**	13	—%
Property taxes	**5,479**	5,383	1.8%	**160**	157	1.9%	**35**	34	2.9%
Total property expenses	**$16,819**	$16,394	2.6%	**$1,529**	$1,500	1.9%	**$102**	$94	8.5%
NOI	**$30,036**	$28,812	4.2%	**$2,038**	$2,006	1.6%	**$107**	$135	(20.7)%
Operating margin	**64.1%**	63.7%	40 bps	**57.1%**	57.2%	(10) bps	**51.2%**	59.0%	(780) bps

Apartment Same Property

Killam's same property apartment portfolio realized NOI growth of 4.2% for the three months ended December 31, 2019, as compared to the three months ended December 31, 2018, due to a 3.6% increase in revenues and a 2.6% increase in total property operating expenses. The revenue growth was generated from a 3.6% increase in the average rental rate and a 10 bps increase in occupancy for the quarter. Occupancy for the three months ended December 31, 2019, was 97.6%.

General operating expenses increased 5.9% in the fourth quarter of 2019, compared to the same period in 2018, due to higher repairs and maintenance costs and insurance premiums. General operating expense increases were partially offset by decreased advertising costs due to strong occupancy in the majority of Killam's core markets.

Utility and fuel expenses were 1.6% lower for the quarter ended December 31, 2019, as compared to the quarter ended December 31, 2018. Electricity expenses were 1.8% lower due to the installation of LED lighting over the past 12 months, in addition to a reduction of inclusion of unit electricity as a rental incentive. Oil costs were down 19.6% during Q4-2019, compared to Q4-2018, as a result of switching select properties to more efficient heating sources. Natural gas expenses were relatively flat quarter-over-quarter. Property taxes increased 1.8% quarter-over-quarter due to higher property tax assessments and rate increases.

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

Q4-2019 Occupancy

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

		Total Occupancy			Same Property Occupancy		
Three months ended December 31,	# of Units	**2019**	2018	Change (bps)	**2019**	2018	Change (bps)
Halifax	5,753	**98.9%**	96.9%	200	**98.9%**	98.4%	50
Ottawa (2)	1,216	**92.5%**	97.0%	(450)	**95.2%**	98.1%	(290)
London	523	**98.6%**	97.4%	120	**98.6%**	97.4%	120
Cambridge-GTA	818	**98.5%**	98.1%	40	**98.5%**	99.3%	(80)
Moncton	1,804	**98.8%**	97.6%	120	**98.8%**	97.6%	120
Fredericton	1,529	**98.4%**	99.0%	(60)	**98.4%**	99.0%	(60)
Saint John	1,202	**96.5%**	96.5%	—	**96.5%**	96.5%	—
St. John's	915	**91.4%**	91.1%	30	**91.4%**	91.1%	30
Charlottetown	986	**99.5%**	99.7%	(20)	**99.4%**	99.8%	(40)
Calgary	531	**95.9%**	95.9%	—	**93.9%**	92.6%	130
Edmonton	579	**92.2%**	86.9%	530	**91.1%**	88.0%	310
Other Atlantic	469	**96.0%**	98.4%	(240)	**96.1%**	98.4%	(230)
Total Apartments (weighted average)	16,325	**97.4%**	96.7%	70	**97.6%**	97.5%	10

(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.

Overall apartment occupancy increased 70 bps to 97.4% in the fourth quarter of 2019, compared to 96.7% for the fourth quarter of 2018. Same property occupancy was 97.6%, a 10 bps gain over Q4-2018. Ottawa same property occupancy is down 290 bps in Q4-2019, compared to Q4-2018, primarily due to increased vacancy at Killam's Kanata properties during the quarter due to new product in the area. The new product has now been absorbed, and Killam expects the Kanata properties to lease back up in Q1-2020.

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

Apartment Same Property NOI by Region

Three months ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Nova Scotia									
Halifax	**$18,273**	$17,446	4.7%	**($6,223)**	($6,002)	3.7%	**$12,050**	$11,444	5.3%
	18,273	17,446	4.7%	**(6,223)**	(6,002)	3.7%	**12,050**	11,444	5.3%
Ontario									
Ottawa	**2,891**	2,892	0.0%	**(950)**	(982)	(3.3)%	**1,941**	1,910	1.6%
London	**2,042**	1,949	4.8%	**(683)**	(700)	(2.4)%	**1,359**	1,249	8.8%
Cambridge-GTA	**3,127**	3,002	4.2%	**(1,005)**	(947)	6.1%	**2,122**	2,055	3.3%
	8,060	7,843	2.8%	**(2,638)**	(2,629)	0.3%	**5,422**	5,214	4.0%
New Brunswick									
Moncton	**4,613**	4,466	3.3%	**(1,946)**	(1,915)	1.6%	**2,667**	2,551	4.5%
Fredericton	**4,382**	4,243	3.3%	**(1,671)**	(1,659)	0.7%	**2,711**	2,584	4.9%
Saint John	**3,040**	2,930	3.8%	**(1,344)**	(1,300)	3.4%	**1,696**	1,630	4.0%
	12,035	11,639	3.4%	**(4,961)**	(4,874)	1.8%	**7,074**	6,765	4.6%
Newfoundland & Labrador									
St. John's	**2,508**	2,495	0.5%	**(779)**	(759)	2.6%	**1,729**	1,736	(0.4)%
	2,508	2,495	0.5%	**(779)**	(759)	2.6%	**1,729**	1,736	(0.4)%
Prince Edward Island									
Charlottetown	**2,599**	2,549	2.0%	**(1,060)**	(1,055)	0.5%	**1,539**	1,494	3.0%
	2,599	2,549	2.0%	**(1,060)**	(1,055)	0.5%	**1,539**	1,494	3.0%
Alberta									
Calgary	**847**	841	0.7%	**(288)**	(239)	20.5%	**559**	602	(7.1)%
Edmonton	**1,206**	1,070	12.7%	**(389)**	(357)	9.0%	**817**	713	14.6%
	2,053	1,911	7.4%	**(677)**	(596)	13.6%	**1,376**	1,315	4.6%
Other Atlantic locations	**1,327**	1,323	0.3%	**(481)**	(479)	0.4%	**846**	844	0.2%
	$46,855	$45,206	3.6%	**($16,819)**	($16,394)	2.6%	**$30,036**	$28,812	4.2%

Halifax revenue grew by 4.7% during the fourth quarter of 2019 due to a 3.8% increase in average rental rates. Property operating expense growth was 3.7%, compared to Q4-2018, due to timing of repairs and maintenance and contract services costs and increases in property tax expense, which were slightly offset by lower utility costs and advertising expenses. Halifax's Q4-2019 same property NOI increased 5.3%, or $0.6 million, from Q4-2018.

Ontario revenue increased by 2.8%, despite a 100 bps decrease in occupancy, as a result of a 3.8% increase in rental rates. In addition, total operating expenses increased only 0.3%, as increased property taxes and higher utility costs were mostly offset by lower repairs and maintenance costs. Ottawa achieved a 3.6% rental rate increase during Q4-2019; however, revenue growth was flat quarter-over-quarter as a result of new product in the Kanata area increasing vacancy in Killam's nearby assets. Overall, Ontario's NOI increased by 4.0% compared to Q4-2018.

Performance in New Brunswick was strong in the fourth quarter, with Fredericton, Moncton and Saint John recording quarter-over-quarter NOI gains of 4.9%, 4.5% and 4.0%, respectively, as compared to the same period in 2018. Rental rates grew by an average of 3.5% across the province, and the average occupancy improved by 20 bps for the quarter, as population growth and a lack of new supply continue to create a tight rental market. Property expenses increased slightly compared Q4-2018 as hydro and water expense savings from energy initiatives partially offset higher property tax and insurance premiums. In total, New Brunswick achieved a 4.6% increase in NOI, as compared to Q4-2018.

Killam's St. John's portfolio saw a slight 1.1% increase in rental rates and realized a 30 bps increase in occupancy over Q4-2018. There continues to be softness in the Newfoundland economy as a result of reduced offshore oil activity. Although net revenue in St. John's increased slightly at 0.5% for Q4-2019, slightly higher operating expenses resulted in a reduction in NOI by 0.4% in Q4-2019.

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

The Charlottetown market remains strong, with rental rate increases of 2.4% in Q4-2019, compared to Q4-2018. Despite a 40 bps decrease in occupancy in Q4-2019, compared to Q4-2018, occupancy remained strong at 99.4%. Property expenses were a modest 0.5% higher than the same period in 2018, primarily due to higher contract services costs and property tax increases. Overall, Charlottetown achieved NOI growth of 3.0% for the three months ended December 31, 2019.

Revenues in Alberta increased 7.4%, given a 250 bps improvement in occupancy and a 1.0% increase in rental rates. Operating costs increased 13.6% compared to the quarter ended December 31, 2018, due to higher staffing costs as the leasing team has expanded and higher property taxes. In total, NOI was 4.6% higher in Q4-2019, compared to Q4-2018.

MHC Results

For the three months ended December 31,	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$3,624**	$3,569	1.5%	**$3,567**	$3,506	1.7%	**$57**	$63	N/A
Property operating expenses									
General operating expenses	**995**	1,023	(2.7)%	**942**	920	2.4%	**53**	103	N/A
Utility and fuel expenses	**437**	422	3.6%	**427**	423	0.9%	**10**	(1)	N/A
Property taxes	**172**	163	5.5%	**160**	157	1.9%	**12**	6	N/A
Total operating expenses	**1,604**	1,608	(0.2)%	**1,529**	1,500	1.9%	**75**	108	N/A
NOI	**$2,020**	$1,961	3.0%	**$2,038**	$2,006	1.6%	**($18)**	($45)	N/A
Operating margin %	**55.7%**	54.9%	80 bps	**57.1%**	57.2%	(10) bps	**—%**	—%	—%

MHC Same Property

The MHC same property portfolio generated a 1.6% increase in NOI in Q4-2019, compared to Q4-2018. Revenues grew by 1.7% quarter-over-quarter due to a 2.8% rental rate increase at the permanent MHC communities. Total same property expenses increased 1.9%, or $29.0 thousand, due to higher contract services and property taxes.

Commercial Results

For the three months ended December 31,	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$3,586**	$2,930	22.4%	**$209**	$230	(9.1)%	**$3,377**	$2,700	25.1%
Property operating expenses	**1,663**	1,295	28.4%	**102**	94	8.5%	**1,561**	1,201	30.0%
NOI	**$1,923**	$1,635	17.6%	**$107**	$136	(21.3)%	**$1,816**	$1,499	21.1%

Killam's overall commercial portfolio achieved a 22.4% increase in revenue and a 17.6% increase in NOI, compared to Q4-2018 due to commercial properties acquired in 2019. The same property results in Q4-2019 represent two properties in Halifax, one of which includes the location of Killam's head office. During the fourth quarter, Killam experienced tenant turnover (6,500 SF), which resulted in a short-term decrease in NOI during Q4-2019.

Q4 FFO and AFFO

For the three months ended December 31,	**2019**	2018	% Change
Net income	**$126,805**	$44,273	186.4%
Fair value adjustments	**(115,158)**	(36,059)	219.4%
Loss on disposition	**28**	16	75.0%
Non-controlling interest	**26**	(15)	(273.3)%
Deferred tax expense	**17,278**	11,423	51.3 %
Interest expense related to exchangeable units	**685**	626	9.4%
Net insurance proceeds	**(4,754)**	—	N/A
Unrealized loss (gain) on derivative liability	**(67)**	245	(127.3)%
Internal commercial leasing costs	**79**	66	19.7%
Depreciation on owner-occupied building	**39**	36	8.3%
Change in principal related to lease liabilities	**36**	—	N/A
FFO	**$24,997**	$20,611	21.3%
FFO per unit - diluted	**$0.25**	$0.23	8.7%
AFFO per unit - diluted	**$0.21**	$0.18	16.7%
AFFO payout ratio - diluted	**80%**	87%	(700) bps
Weighted average number of units - basic (000s)	**99,588**	89,283	11.5%
Weighted average number of units - diluted (000s)	**99,781**	89,517	11.5%

Killam earned FFO of $25.0 million, or $0.25 per unit (diluted), for the three months ended December 31, 2019, compared to $20.6 million, or $0.23 per unit (diluted), for the three months ended December 31, 2018. FFO growth is primarily attributable to contributions from acquisitions and completed developments ($2.4 million), a reduction in amortization of deferred financing costs ($1.9 million) and same property NOI growth ($1.2 million). These increases were offset by lower revenue related to the timing of recognition of forgivable government loans in 2018 ($1.1 million), higher interest expense ($0.2 million) and an 11.5% increase in the weighted average number of units outstanding from an equity raises completed in March and November 2019.

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

PART XI

Selected Consolidated Financial Information

For the years ended December 31,	**2019**	2018	2017
Property revenue	**$241,749**	$215,959	$187,377
Net income	**$283,525**	$175,171	$104,760
FFO	**$93,884**	$81,808	$69,873
FFO per unit - diluted	**$0.98**	$0.94	$0.90
Investment properties	**$3,320,604**	$2,799,693	$2,279,763
Total assets	**$3,380,100**	$2,824,406	$2,311,210
Total liabilities	**$1,777,733**	$1,655,456	$1,343,488
Distribution per unit	**$0.66**	$0.64	$0.62

Risk Management

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

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

Killam is exposed to other risks, as outlined below:

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

As at December 31, 2019, $35.7 million of Killam's debt had variable interest rates, including two construction loans for $24.9 million, and two demand loans totaling $10.8 million. These loans and facilities have interest rates of prime plus 0.55% - 1.00% or 125-201 bps above BAs (December 31, 2018 - prime plus 0.63% - 2.0% or 125 bps above BAs) and consequently, Killam is exposed to short-term interest rate risk on these loans.

Liquidity Risk
Liquidity risk is the risk that Killam may not have access to sufficient capital to fund its growth program or refinance its debt obligations as they mature. Killam manages cash resources based on financial forecasts and anticipated cash flows. The maturities of Killam's long-term financial liabilities are set out in note 26 to the consolidated financial statements. Killam staggers the maturities of its debt, minimizing exposure to liquidity risk in any year. In addition, Killam's apartments qualify for CMHC-insured debt, reducing the refinancing risk on maturity. Killam's MHCs and commercial properties do not qualify for CMHC-insured debt; however, they continue to have access to mortgage debt.

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

Credit Risk
Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill the commitments of their lease. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one

tenant. Credit assessments are conducted for all new leases, and Killam also obtains a security deposit to assist in potential recovery requirements. Killam's bad debt expense has historically been less than 0.4% of revenues, and none of Killam's tenants account for more than 3% of tenant receivables.

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

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

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

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

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

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

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

Fluctuation and Availability of Cash Distributions
Killam's distribution policy is established pursuant to the DOT and may only be changed with the approval of a majority of unitholders. However, the Board of Trustees may reduce or suspend cash distributions indefinitely, which could have a material adverse effect on the market price of the trust units. There can be no assurance regarding the amount of income to be generated by Killam's properties. The ability of Killam to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of Killam, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital, the sustainability of income derived from the tenant profile of Killam's properties and capital expenditure requirements. Distributions may be increased, reduced or suspended entirely depending on Killam's operations and the performance of Killam's assets at the discretion of the Trustees. The market value of the trust units will deteriorate if Killam is unable to meet its

distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return of investors.

Ability of Unitholders to Redeem Units

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

Exchangeable Units

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

Taxation-related Risks

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

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

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

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

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

- At each time in the taxation year, the total fair market value at that time of all “non-portfolio properties” that are “qualified REIT properties” held by the Trust must be at least 90% of the total fair market value at that time of all non-portfolio properties held by the Trust;
- Not less than 90% of the Trust’s “gross REIT revenue” for the taxation year is from one or more of the following: “rent from real or immovable properties”, interest, capital gains from dispositions of “real or immovable properties” that are capital properties, dividends, royalties and dispositions of “eligible resale properties”;
- Not less than 75% of the Trust’s gross REIT revenue for the taxation year is derived from one or more of the following: rent from real or immovable properties, interest from mortgages on real or immovable properties, from dispositions of real or immovable properties that are capital properties;
- At no time in the taxation year can the total fair market value of properties comprising real or movable property that is capital property, an “eligible resale property”, cash, deposits (within the meaning of the Canada Deposit Insurance Corporation Act or with a branch in Canada of a bank or a credit union), indebtedness of Canadian corporations represented by banker’s acceptances, and debt issued or guaranteed by the Canadian government or issued by a province, municipal government or certain other qualifying public institutions be less than 75% of the “equity value” (in each case, as defined in the Tax Act) of the Trust at that time; and
- Investments in the Trust must be, at any time in the taxation year, listed or traded on a stock exchange or other public market.

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

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

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

Other Canadian Tax Matters

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

Competition for Real Property Investments

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

Future Acquisitions of Real Property Investments

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

Zoning and Approval

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

Dependence on Key Personnel

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

Market for Securities and Price Volatility

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

Co-ownership

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

Ground Leases

Four of Killam’s properties, including 6101 South Street and Chapter House located in Halifax, Oceanic Camping located in Shediac, New Brunswick, and 1033 Queen Street West in Toronto, are subject to long-term ground leases in which the underlying land is owned by an arms-length third party and leased to Killam. Under the terms of the ground lease, Killam must pay rent for the use of the land and is generally responsible for all the costs and expenses associated with the building and improvements. Unless the lease term is extended, the land, together with all the improvements made, will revert to the owner of the land upon the expiration of the lease. The leases are scheduled to expire in 2040 (there is an option for a ten-year renewal), 2080, 2105 and 2059, respectively. The total ground lease payments for the year ended December 31, 2019 were $0.1 million (December 31, 2018 - $0.1 million).

Climate Change

Killam is exposed to climate change risk from rising sea levels, natural disasters and severe weather, such as heavy rain and flooding, high winds, wildfires, blizzards, ice storms and thunderstorms that may cause damage to investment properties. As weather becomes more erratic, damage to investment properties may result in increased restoration costs, loss of revenue in the event of business disruption, potential decrease in property values and increased costs to insure properties against climate related risks.

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

Critical Judgments in Applying Accounting Policies

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

(i) Income taxes

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

(ii) Investment property and internal capital program

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

(iii) Financial instruments
The Trust's accounting policies relating to financial instruments are described in note 2(M) to the consolidated financial statements. Critical judgments inherent in these policies related to applying the criteria set out in IFRS 9 to determine the appropriate recognition model, i.e., FVTPL, etc., assess the effectiveness of hedging relationships and determine the identification of embedded derivatives, if any, that are subject to fair value measurement.

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

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

Key Accounting Estimates and Assumptions

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

(i) Valuation of investment properties
The choice of valuation method and the critical estimates and assumptions underlying the fair value determination of investment properties are set out in note 5 to the consolidated financial statements. Significant estimates used in determining the fair value of the Trust's investment properties include capitalization rates and stabilized net operating income used in the overall capitalization rate valuation method. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to note 5 for sensitivity analysis.

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

(ii) Deferred unit-based compensation
The compensation costs relating to deferred unit-based compensation are based on estimates of how many deferred units will be awarded as well as how many will actually vest and be exercised, as well as valuation models, which by their nature are subject to measurement uncertainty.

(iii) Deferred taxes
The amount of the temporary differences between the accounting carrying value of the Trust's assets and liabilities held in various corporate subsidiaries versus the tax bases of those assets and liabilities and the tax rates at which the differences will be realized are outlined in note 23 to the consolidated financial statements.

Future Accounting Policy Changes

The following new or amended accounting standards under IFRS have been issued or revised by the IASB; however, they are not yet effective and as such have not been applied to the consolidated financial statements.

Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of Material
In October 2018, the IASB issue amendments to IAS 8 to align the definition of material across the standards and to clarify certain aspects of the definition. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements, or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

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

The amendment is effective for annual reporting periods beginning on or after January 1, 2020. Killam will apply the amendment from its effective date and does not expect a significant impact on its consolidated 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.

Disclosure Controls and Procedures

As of December 31, 2019, Management evaluated the effectiveness of the operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer, with the assistance of Management.

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

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

Internal Controls over Financial Reporting

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

As at December 31, 2019, Killam's President and Chief Executive Officer and its Chief Financial Officer, with the assistance of Management, assessed the effectiveness of the ICFR using the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013 and, based on that assessment, determined that the ICFR were designed and operating effectively as at December 31, 2019. Killam did not make any changes to the design of ICFR in 2019 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Related Party Transactions

Killam has construction management and development agreements with APM Construction ("APM") and MacLean Contracting Ltd. ("MacLean"), companies owned by a Trustee of Killam, to provide construction services related to the Shorefront apartment development and reconstruction of the Harley Street apartment building in PEI. APM will be paid a market rate development and construction management fee. For the year ended December 31, 2019, APM and MacLean were paid $2.4 million in development and construction management fees and construction labour (December 31, 2018 - $0.3 million).

Killam owns a 50% interest in two commercial properties located at 3700 & 3770 Kempt Road in Halifax, NS, the remaining 50% interest in these properties is owned by Bloomfield Holdings Ltd. ("Bloomfield"), a company owned by an executive and Trustee of Killam. These properties are managed by an arm's length third party. Killam's head office occupies approximately 23,000 square feet of one of the buildings with base rent of approximately $13.00 per square foot, of which 50% is paid to the related party based on the ownership interest.

The remuneration of directors and other key management personnel, which include the Board of Trustees, President & Chief Executive Officer, Executive Vice President, Chief Financial Officer and other Vice-Presidents of Killam, is as follows:

For the years ended December 31,	**2019**	2018
Salaries, board compensation and incentives	**$3,928**	$4,079
Deferred unit-based compensation	**1,822**	1,455
Total	**$5,750**	$5,534

Subsequent Events

On January 15, 2020, Killam announced a distribution of $0.055 per unit, payable on February 17, 2020, to unitholders of record on January 31, 2020.

On January 15, 2020, Killam acquired a 161-unit apartment building in Greater Victoria, BC, for $54.0 million. The acquisition was funded with cash and Killam's credit facility.

On January 31, 2020, Killam acquired a 54-unit apartment building in Halifax, NS, for $8.8 million. The acquisition was funded with cash and the assumption of $3.5 million of debt.

On February 12, 2020, the Board of Trustees approved a 3.0% increase to Killam's annual distribution, to $0.68 per unit from $0.66 per unit. The monthly distribution will be $0.05667 per unit, up from $0.055 per unit. The increase will become effective for the March 2020 distribution to be paid in April 2020.