

2020 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 \$3.8 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 twelve projects to-date, with a further five 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 88.8% of Killam's net operating income ("NOI") for the year ended December 31, 2020. As at December 31, 2020, Killam's apartment portfolio consisted of 17,048 units, including 968 units jointly owned with institutional partners. Killam's 206 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% total share of multi-family rental units in these core Atlantic markets. Killam plans to continue increasing its presence outside Atlantic Canada through acquisitions and developments; however, it will continue to invest strategically in Atlantic Canada to maintain its market presence.

In addition, Killam owns 5,875 sites in 39 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 6.5% of Killam's NOI for the year ended December 31, 2020. Killam also owns 749,661 square feet (SF) of commercial space that accounted for 4.7% of Killam's NOI for the year ended December 31, 2020.

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the annual consolidated financial statements including the notes thereto 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, 2020 and 2019, 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 2019 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 10, 2021. 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 reasonable potential liabilities of the Trust.

As at December 31, 2020, Killam was in compliance with all investment guidelines and operating policies.

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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. Such forward-looking statements may include, among other things, statements regarding: uncertainties and risks arising as a result of the spread of the COVID-19 pandemic, including uncertainty surrounding disruptions to financial markets, regional economies and the world economy; the financial condition of Killam's tenants and the ability of Killam's tenants to pay rent; interest rate fluctuations; market values; impact on financial results including impacts relating to rental rate growth expectations and rent collection; pace and scope on future acquisitions, construction, development and renovation, renewals and leasing; and the availability of capital to fund further investments in Killam's business. Readers should be aware that these forward-looking 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: the effects, duration and government responses to the COVID-19 pandemic and the effectiveness of measures intended to mitigate the impact of COVID-19, 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 contained herein are expressly qualified by this cautionary statement. 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. Readers are cautioned that the below noted 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 31.
- 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 average of historical 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 33.
- 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 34. 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 2020 and 2019. Same property results represent 90.3% of the fair value of Killam's investment property portfolio as at December 31, 2020. Excluded from same property results in 2020 are acquisitions, dispositions and developments completed in 2019 and 2020, 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.

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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.

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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,	2020	2019	Change ⁽²⁾
Operating Performance			
Property revenue	\$261,690	\$242,164	8.1%
Net operating income	\$164,662	\$152,336	8.1%
Net income	\$146,040	\$283,525	(48.5)%
FFO ⁽¹⁾	\$104,678	\$93,884	11.5%
FFO per unit – diluted ⁽¹⁾	\$1.00	\$0.98	2.0%
AFFO ⁽¹⁾	\$86,816	\$76,768	13.1%
AFFO per unit – diluted ⁽¹⁾	\$0.83	\$0.80	3.7%
Weighted average number of units outstanding – diluted (000s)	104,503	95,914	9.0%
Distributions paid per unit ⁽³⁾	\$0.68	\$0.66	3.1%
AFFO payout ratio – diluted ⁽¹⁾	82%	82%	— bps
Portfolio Performance			
Same property NOI ⁽¹⁾	\$147,372	\$144,030	2.3%
Same property NOI margin ⁽¹⁾	63.5%	63.3%	20 bps
Same property apartment occupancy	96.8%	97.2%	(40) bps
Same property apartment weighted average rental increase ⁽⁴⁾	3.4%	3.6%	(20) bps
As at December 31,			
Leverage Ratios and Metrics			
Debt to total assets	44.6%	43.4%	120 bps
Weighted average mortgage interest rate	2.69%	2.90%	(21) bps
Weighted average years to debt maturity	4.6	4.5	0.1 years
Debt to normalized EBITDA ⁽¹⁾	10.78x	10.15x	6.2%
Debt service coverage ⁽¹⁾	1.57x	1.57x	—%
Interest coverage ⁽¹⁾	3.36x	3.20x	5.0%

(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, basis point ("bps") or years.

(3) The Board of Trustees approved a 3.0% increase in Killam's distribution on an annualized basis to \$0.68 per unit effective for the March 2020 distribution.

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

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Summary of 2020 Results and Operations

Portfolio Growth from Acquisitions

Killam completed \$211.1 million in acquisitions in 2020, bringing its total portfolio to \$3.8 billion. Killam added 650 apartment units to its portfolio by entering into the BC apartment market for the first time, acquiring 315 units in Victoria and further expanding its presence in Halifax and Moncton. Killam also acquired an MHC containing 89 sites, a small commercial property and development land, totalling \$12.0 million. Killam continues to execute on its geographic diversification strategy and increased the percentage of NOI generated outside of Atlantic Canada to 32%, up from 30% in 2019. Over 56% of the equity deployed in 2020 was in British Columbia and Ontario.

FFO per Unit Growth of 2.0% and AFFO per Unit Growth of 3.7%

Killam generated solid FFO and AFFO per unit growth in 2020. FFO per unit was \$1.00 in 2020, 2.0% higher than 2019. AFFO per unit increased 3.7%, to \$0.83 compared to \$0.80 in 2019. The growth in FFO and AFFO was attributable to an increase in same property performance, and contributions from recent acquisitions and stabilized developments, partially offset by a 9.0% increase in the weighted average number of units outstanding.

Positive Same Property NOI Growth

Killam achieved 2.3% same property NOI growth during the year, with apartments up 2.6%, offsetting a 0.2% decline from the MHC portfolio. Overall, same property revenues were up 2.0% and expenses were up only 1.4%, compared to 2019. Impacts of COVID-19 were felt in the year, including delayed apartment rent increases following rent increase suspensions during Q2, reduced activity at Killam's nine seasonal MHCs, lower commercial rent following participation in the Canadian Emergency Commercial Rent Assistance (CECRA) program, and increased compensation for Killam's front-line workers.

Repositioning Program Continues to Generate Above-average Returns

During 2020, Killam invested \$14.5 million in unit repositionings, completing 495 unit upgrades, up 63% from 304 units completed in 2019. The average unlevered return on investment ("ROI") on unit repositionings completed during the year was 13.0%, based on an average renovation cost of \$25,000 per unit. Repositioned units completed in 2020 are expected to generate approximately \$1.5 million in additional NOI on an annualized basis and approximately \$30 million in Net Asset Value ("NAV") growth at current capitalization rates.

Refinancing at Low Rates Contributed to Earnings Growth

Killam benefited from lower interest rates on mortgages refinanced in 2020. During the year, Killam refinanced \$219.1 million of maturing mortgages with \$297.1 million of new debt at a weighted average interest rate of 1.83%, 85 bps lower than the weighted average interest rate of the maturing debt. Killam was also able to take advantage of low interest rates for acquisitions, placing debt on acquisitions in the fourth quarter of 2020 at a weighted average interest rate of 1.9%.

Substantial Development Activity

Killam continues to advance its development pipeline, with five active developments underway at year-end totaling 711 units (523 units representing Killam's percentage ownership) for an expected total investment of \$310 million (Killam's investment \$223 million). During 2020, Killam invested \$76.1 million in its active development projects and completed its Shorefront development, a 78-unit building located in Charlottetown, PE. Shorefront was substantially complete in Q4 and is currently 55% leased. Killam's 38-unit 10 Harley project is 95% complete and the building is expected to open by the end of February. Killam's 10% interest in the 233-unit Nolan Hill development project was also substantially complete at year-end, and Killam closed the acquisition of the remaining 90% of the project in January 2021.

Environmental, Social and Governance (ESG) Focused Initiatives

Killam is continuing to work towards reducing its impact on the environment and ensuring its buildings are sustainable and resilient to climate change. Killam's ongoing energy efficiency capital investments program has been updated to include the installation of solar photovoltaic panels as a part of Killam's renewable energy targets. In late 2020, solar panels were installed at 11 existing properties, for an investment of \$1.2 million, with an additional \$2.5 million budgeted in 2021. Management completed its second GRESB rating in 2020, realizing a 32% improvement over its initial 2019 submission. From this process, many new ESG initiatives continue to be rolled out, such as building certification applications, sustainable supply chain management policies and enhanced diversity and inclusion practices.

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COVID-19 Impact on Operations

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. Since the onset of the pandemic, Killam has focused on ensuring the continued health and safety of its employees, tenants, stakeholders and communities. Killam responded quickly and executed on its Pandemic Illness Plan to help lessen the spread of COVID-19.

Due to the inherent uncertainty surrounding disruption from COVID-19, it is not possible to forecast with certainty the duration and full scope of the economic impact and other consequential changes the pandemic may have on Killam's business and operations, both in the short term and medium term. However, we are encouraged by the resourcefulness of our staff and resiliency of our revenue base.

All Killam's apartment properties, permanent MHCs and the essential retail tenants remained operational during the third and fourth quarters. As COVID-19 persists, Killam will continue to act and support its tenants in accordance with direction provided by the federal, provincial, and municipal governments.

Due to the economic uncertainty facing many Canadians during the initial emergency measures associated with the pandemic, Killam waived the collection of rental increases from April to July 2020 for lease renewals, in addition to the waiving of both NSF and late fees. During Q3-2020, Killam waived increases for July but reinstated the increases beginning in August or September for most properties.

Killam also delayed distribution of rental increase notices to tenants between March and May 2020. As the required notice period to increase rents is a minimum of three months in most provinces across Canada, Killam did not begin collecting rental increases pertaining to these notices until Q4-2020.

Overall, rent collection remained strong in 2020, with rent collection rates as follows for the year ended December 31, 2020:

% Collected ⁽¹⁾	2020
Apartments	99.9%
MHCs	99.6%
Commercial	98.5%
Total (weighted average)	99.7%

(1) % collected takes into consideration CECRA government funding, rent deferrals and rent abatement.

Killam worked with tenants who were financially impacted by COVID-19 during the year and where relevant, consistent with provincial directives. Historically, Killam has had less than 0.3% of revenue uncollected, and at this time management does not expect a material increase in rental defaults in 2021. Killam continues to offer a rent deferral program to assist residential tenants facing financial hardship due to COVID-19, working with residents on a case-by-case basis.

Killam also works closely with its commercial tenants under the CECRA program. Killam's commercial tenant base makes up a relatively small portion of Killam's overall business, with the commercial portfolio accounting for approximately 6.0% of total revenues and 4.7% of Killam's total NOI for the year ended December 31, 2020. Killam filed CECRA applications for approximately 40 commercial tenants and recorded a reduction in commercial revenue of \$0.3 million during the year related to the program. Killam also provided various commercial tenants rental abatement during 2020 to help mitigate the impact of the pandemic with an impact of \$0.3 million on commercial revenue.

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Strategic Targets

Growth in Same Property NOI	
2020 Target	Same property NOI growth of 3% to 5%.
2020 Performance	Killam achieved same property NOI growth of 2.3% in 2020, slightly below its 2020 target as a result of COVID-19.
2021 Target	Same property NOI growth over 2%, subject to COVID-19 related restrictions being lifted by Q3-2021.
Longer-term Target	Same Property NOI growth averaging 2% - 4%.
Expanded Portfolio	
2020 Target	Complete a minimum of \$175 million in acquisitions.
2020 Performance	Killam exceeded its target, completing \$211.1 million in acquisitions.
2021 Target	Complete a minimum of \$100 million in acquisitions.
Longer-term Target	Grow the portfolio to over \$5.0 billion by the end of 2025.
Geographic Diversification	
2020 Target	Earn at least 32% of 2020 NOI outside Atlantic Canada.
2020 Performance	Killam generated 32% of 2020 NOI outside Atlantic Canada.
2021 Target	Earn over 32% of 2021 NOI outside Atlantic Canada.
Longer-term Target	Earn over 36% of NOI generated outside Atlantic Canada by 2025.
Development of High-quality Properties	
2020 Target	To complete the Shorefront development, and break ground on two additional development projects.
2020 Performance	Killam met its development target, completing the 78-unit Shorefront project in October 2020, while also breaking ground on its Civic 66 development and acquiring a 50% interest in the active Luma development in Q3-2020.
2021 Target	To complete the construction of two buildings totalling a 166 units and break ground on two additional developments totalling a minimum of 150 units.
Longer-term Target	To complete a minimum of \$250 million in developments between 2021 and 2025.
Strengthened Balance Sheet	
2020 Target	Maintain debt as a percentage of assets ratio below 47%.
2020 Performance	Debt as a percentage of total assets was 44.6% as at December 31, 2020.
2021 Target	Maintain debt as a percentage of assets ratio below 47%.
Longer-term Target	Reduce debt as a percentage of assets below 40% by the end of 2025.
Sustainability	
2021 Target	Minimum investment of \$5.0 million in energy initiatives in 2021 to reduce Killam's carbon footprint and increase sustainability.
Longer-term Target	Reduce Killam's GHG emissions by 15% by 2030 and produce a minimum of 10% electricity through renewable sources by 2025.

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Outlook

Demand for Apartments Remains Strong

Killam's 2020 same property NOI growth was impacted by the COVID-19 pandemic, mainly due to the waiving of rental increases, suspension of rental increase notices, and a reduction in revenue at Killam's seasonal resorts. Despite these constraints, demand for apartments remains robust and Killam continues to execute on its value-enhancing initiatives. Management is seeing stable to increasing market rents across the majority of its portfolio, which is expected to lead to continued top-line growth. This growth may be partially offset by a government-imposed rental rate freeze in Ontario in 2021, and a potential uptick in vacancy in the year ahead. With ongoing pandemic restrictions, Killam may see occupancy levels decline slightly in certain markets and student-focused properties. Management will closely monitor demand drivers across the portfolio and adjust leasing efforts accordingly.

Continued Expansion of Suite Repositioning Program

Management is committed to its repositioning program. Following the success of 2020's program of 495 suite renovations, management plans to expand the program further in 2021, targeting 550 repositions. In addition, Killam is improving efficiencies and targeting improved performance metrics in the year ahead, including the percentage of repositionings completed in 28 days. 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. A review of Killam's portfolio has identified a minimum of 5,000 units having repositioning potential.

Investments in Energy Efficiency Programs to Reduce CO₂ Emissions and Offset Rising Operating Costs

Investments in energy and water-saving initiatives, and operational efficiencies, are expected to continue to reduce Killam's energy consumption and offset rising operating costs, including property taxes and insurance. Killam has invested \$16.4 million 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 over the last four years. Management is planning to invest a minimum of \$5.0 million in new efficiency projects in 2021, including increased investment in solar panels. These projects should contribute to same property NOI growth by lowering consumption and improve Killam's sustainability metrics.

Interest Expense Savings on Refinancings

Killam's mortgage financings and renewals progressed on schedule in 2020, in terms of both timing and upfinancing opportunities. Looking forward, with \$141.2 million in mortgages maturing in 2021, management expects to up-finance approximately \$50.0 million of cash and, based on current interest rates, reduce its overall weighted average interest rate.

Growth through Accretive Developments

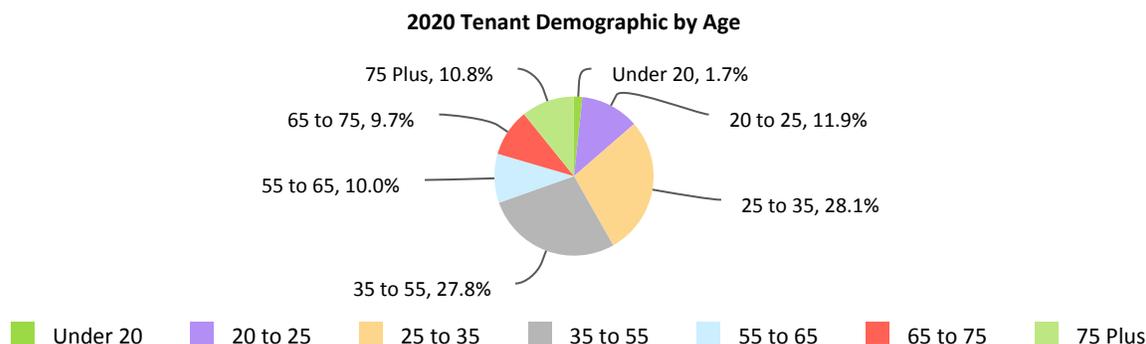
Development remains an important component of Killam's growth strategy. Killam currently has five developments underway, for a total of 523 apartment units at a total cost of approximately \$223.4 million and an expected weighted average yield of approximately 5.0%. The majority of the capital required for these developments is being funded through construction loans. In addition, Killam acquired the remaining 90% interest in the Nolan Hill development early in 2021, adding another 233 units to its portfolio. The completion and stabilization of these projects are expected to contribute positively to Killam's future FFO per unit growth.

Well-positioned for Future Acquisitions

Killam finished 2020 with acquisition capacity exceeding \$330 million following a \$40 million increase in its credit facility in December. Following the closing of the remaining 90% interest in Nolan Hill and acquisitions of land for future development in early 2021, Management expects its acquisition capacity to be over \$250 million. Management remains focused on growing its portfolio in Ontario and Western Canada and is actively looking for acquisition opportunities in these markets.

Diverse Tenant Demographics Contribute to Stable Occupancy

Killam's tenant base includes a diverse mix of tenants, including young professionals, seniors, empty nesters, families, and students. Since the onset of COVID-19, Killam has experienced relatively stable occupancy in most of its markets, however, Killam has seen increased vacancy in St. John's, Newfoundland, Kanata (Ottawa) and downtown Calgary. The diversity of Killam's tenant base is expected to contribute to continued stable occupancy overall. The following chart illustrates Killam's 2020 tenant demographic by age.



2020 Management's Discussion and Analysis

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PART III

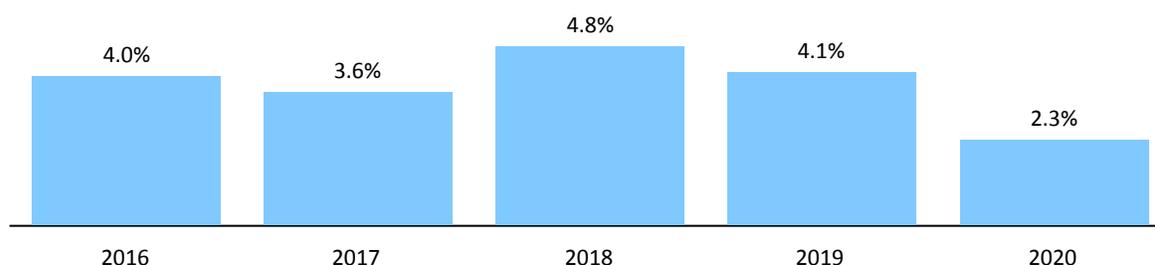
Business Strategy

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 manage 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 2.4% per annum over the past decade; in the last five years, Killam has averaged 3.8% growth.

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 2020, Killam acquired \$211.1 million in assets. On average, Killam has acquired over \$122.0 million of properties annually since its first acquisition in 2002.

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

Annual Acquisitions (\$ millions)



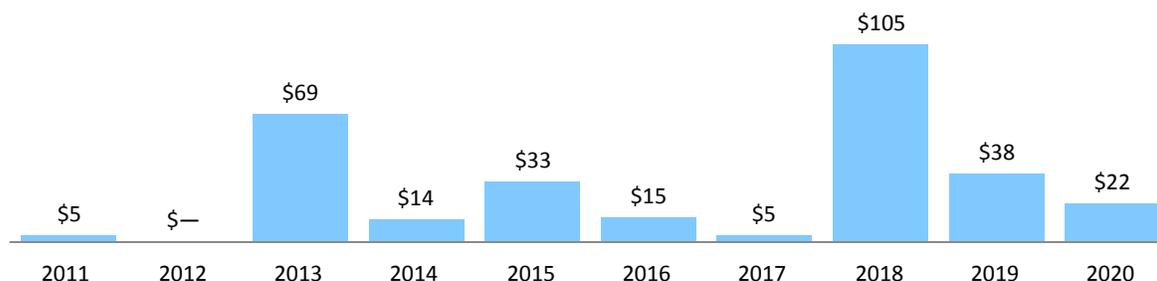
2020 Management's Discussion and Analysis

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

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 twelve projects to-date, investing over \$300 million to construct nearly 1,300 units. Killam has an experienced development team who hold architectural and engineering degrees, that oversee all projects. New property construction enables Killam to control the quality and features of its buildings. Killam targets yields of 4.5%–5.5% on development, and expects to build at a 50–150 bps discount to the market capitalization rates ("cap-rates") on completion, creating value for its unitholders. Killam currently has a development pipeline of approximately 3,000 units.

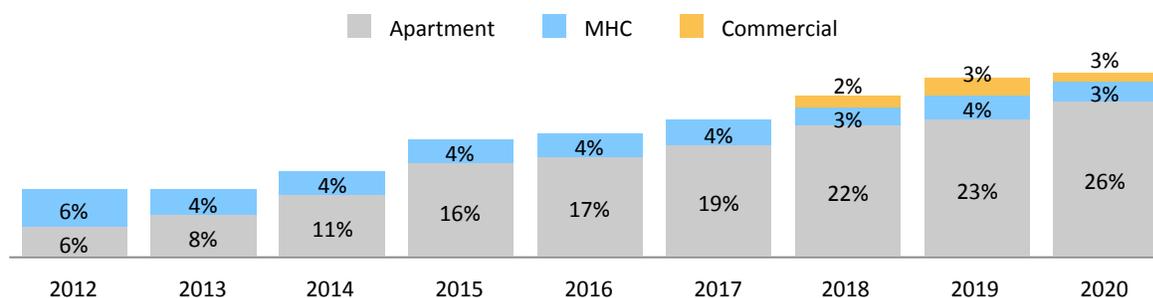
Apartment Developments Complete (\$ millions)



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.

% of Killam's NOI Generated Outside Atlantic Canada



2020 Management's Discussion and Analysis

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

Committed to ESG

Killam takes its responsibility regarding 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 know 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 to the market in Atlantic Canada in 2004, Killam was an early adopter. Today 58% of its properties are heated with natural gas, a much cleaner fuel than furnace oil. Starting in 2016, Killam commenced a five-year, \$25.0 million energy-efficiency program, focused on reducing its greenhouse gas emissions, gaining operating efficiencies and lowering operating costs. In the past five years, Killam's green projects include the installation of solar panels, installation of electric vehicle (EV) chargers, air-sealing apartment units, installation of low-flow toilets and LED lighting retrofits across the entire apartment portfolio. This is in addition to the installation of solar, EV chargers 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 750 subsidized apartment units throughout its portfolio. The focus on 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 enrichment that comes from employee diversity and inclusion, including a strengthened corporate culture, improved employee retention and the benefit of 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 a sustainability policy detailing 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, greenhouse gas emissions 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.

ESG Progress

Killam continues to research and invest in initiatives to reduce its greenhouse gas emissions. Along with its annual energy efficiency program, Killam commenced installation of photovoltaic solar panels in 2020 at 11 of its properties, generating 880 MWh of renewable energy with a 10% ROI. As well, Killam participated in its second GRESB assessment, achieving a 32% increase from initial score and a green star ranking.

Based on Killam's 2020 greenhouse gas emissions, new longer-term targets have been developed. Management is targeting to reduce Killam's carbon footprint by 15% in the next 10 years and to use renewable energy sources to replace other fossil fuel for a minimum of 10% of its supply over the next 5 years. Killam will continue to monitor progress and adjust these targets in future years, acknowledging the complexity and many external factors that contribute to Killam's overall goal of reducing its greenhouse gas emissions. Killam is committed to being a part of the communities where it operates and to decreasing its carbon footprint and its overall impact on climate change.

2020 Management's Discussion and Analysis

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, 2020:

Apartment Portfolio				
	Units ⁽¹⁾	Number of Properties	NOI (\$) ⁽²⁾	NOI ⁽²⁾ (% of Total)
Nova Scotia				
Halifax	5,814	65	\$56,104	34.1%
Sydney	139	2	\$1,312	0.8%
	5,953	67	\$57,416	34.9%
New Brunswick				
Moncton	2,073	36	\$12,636	7.8%
Fredericton	1,529	23	\$11,735	7.1%
Saint John	1,202	14	\$6,668	4.0%
Miramichi	96	1	\$651	0.4%
	4,900	74	\$31,690	19.3%
Ontario				
Ottawa	1,216	9	\$10,642	6.5%
London	523	5	\$5,409	3.3%
Cambridge-GTA	818	6	\$11,008	6.7%
	2,557	20	\$27,059	16.5%
Newfoundland & Labrador				
St. John's	915	12	\$6,334	3.8%
Grand Falls	148	2	\$662	0.3%
	1,063	14	\$6,996	4.1%
Prince Edward Island				
Charlottetown	1,064	20	\$7,123	4.3%
Summerside	86	2	\$612	0.4%
	1,150	22	\$7,735	4.7%
Alberta				
Calgary	531	3	\$5,277	3.3%
Edmonton	579	4	\$6,167	3.7%
	1,110	7	\$11,444	7.0%
British Columbia				
Victoria	315	2	\$3,808	2.3%
Total Apartments	17,048	206	\$146,148	88.8%
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI (\$) ⁽²⁾	NOI ⁽²⁾ (% of Total)
Nova Scotia	2,749	17	\$4,807	2.9%
Ontario	2,284	17	\$5,460	3.3%
New Brunswick	672	3	\$217	0.1%
Newfoundland & Labrador	170	2	\$368	0.2%
Total MHCs	5,875	39	\$10,852	6.5%
Commercial Portfolio ⁽³⁾				
	Square Footage ⁽⁴⁾	Number of Properties	NOI (\$) ⁽²⁾	NOI ⁽²⁾ (% of Total)
Prince Edward Island	191,511	1	\$1,361	0.8%
Ontario	306,106	1	\$4,510	2.8%
Nova Scotia	218,829	5	\$1,379	0.8%
New Brunswick	33,215	1	\$412	0.3%
Total Commercial	749,661	8	\$7,662	4.7%
Total Portfolio		253	\$164,662	100.0%

(1) Unit count includes the total unit count of 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.

(2) For the year ended December 31, 2020.

(3) Killam also has 175,800 square feet of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.

(4) Represents Killam's ownership, which includes a 50% interest in commercial properties located in Nova Scotia and Prince Edward Island, managed by the co-owners.

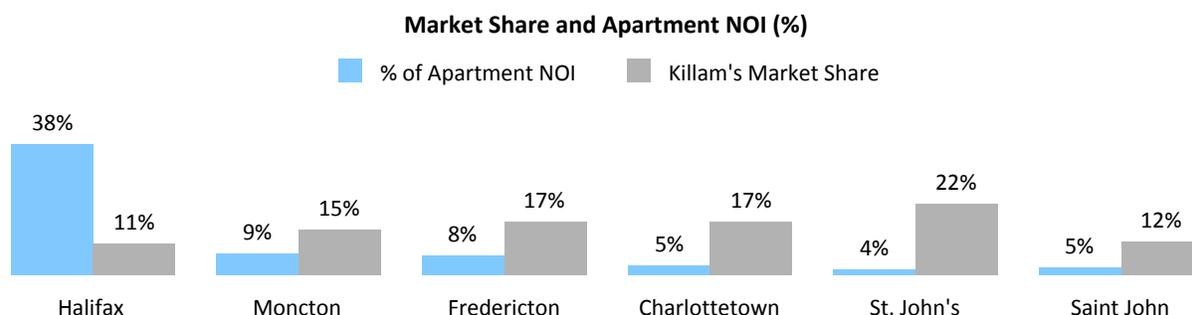
2020 Management's Discussion and Analysis

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

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, 2020. 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.



Relatively Modest Exposure to Rent Control

Over 70% of Killam's current apartment portfolio is not impacted by permanent rent control, allowing Killam to move rents to market rates annually in these regions. Prince Edward Island, representing 5.3% of Killam's apartment NOI, is the only province in Atlantic Canada with rent control for apartments. In November 2020, Nova Scotia announced temporary rent restriction measure, limiting rental increases on lease renewal to 2%, to address the economic impact of the COVID-19 pandemic. Killam's Nova Scotia portfolio accounts for 39.3% of apartment NOI. These measures are in place until the provincial state of emergency is lifted, or until February 2022, whichever is sooner. At this time, Management does not expect Nova Scotia to move to a permanent rent control model.

Killam's Ontario portfolio, accounting for 18.5% of apartment NOI, is subject to rent control. In response to the COVID-19 pandemic, the Ontario government passed legislation to freeze rents at 2020 levels in 2021 however, landlords can move rents to market on a unit-by-unit basis as they become vacant. Killam's newest market, British Columbia, making up 2.6% of Killam's apartment NOI, also has rent control and the government announced a maximum allowable rental increase of 1.4% in 2021. British Columbia also announced a rent increase freeze in response to COVID-19. The freeze is currently in effect until July 10, 2021. Ontario and Nova Scotia both have rent control for MHCs, however, in both provinces, rent controls do not apply to new tenants.

In all of the regions impacted by rent control, owners may apply for above-guideline increases ("AGIs") to offset significant capital expenditures. 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 in 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 online survey (3,450 respondents in 2020). Killam's 2020 survey results support Killam's focus on service, with tenants giving Killam an impressive 87% satisfaction rating. 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 and recently closed the acquisition of the remaining 90% interest in a joint development project in Calgary, adding an additional 233 units to its Alberta portfolio in January 2021. In January 2020, Killam acquired its first apartment property in Greater Victoria, BC, and now owns 315 units in the province. In addition to apartments, 39% of Killam's MHC sites and 41% of Killam's commercial square footage is located in Ontario.

2020 Management's Discussion and Analysis

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

Below Market Rents

Management estimates market rental rates are approximately 10-15% higher than Killam's total apartment weighted average rents. Killam's weighted average rental rate was \$1.37 per square foot for the year ended December 31, 2020. The differential between market and in-place rents reflects Killam's current affordability within its markets, as well as opportunities for rental increases when natural turnover arises.

Core Market Update

Halifax

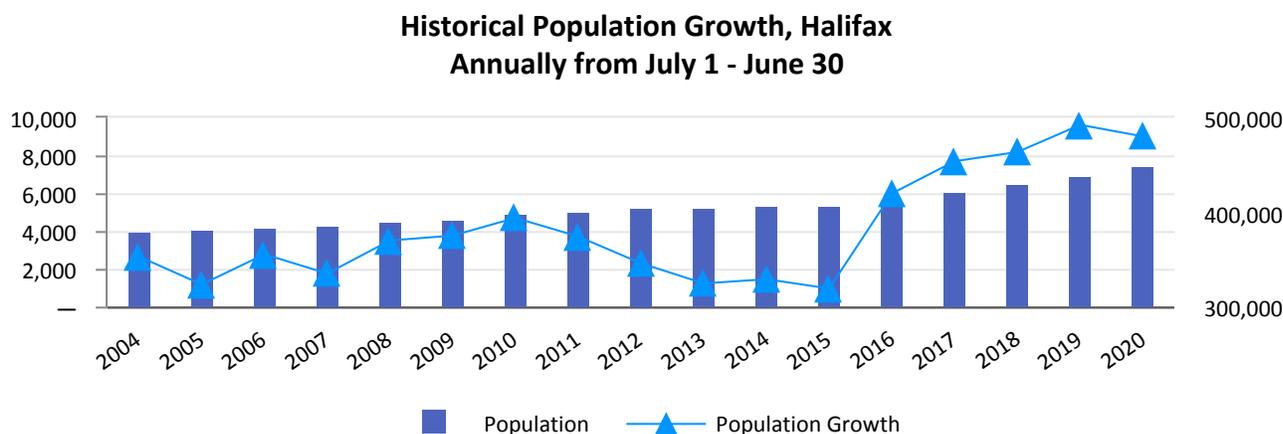
Thirty-four percent of Killam's NOI is generated by its Halifax apartment properties. Halifax is the largest city in Atlantic Canada and is home to 17% of Atlantic Canadians. The city's rental market totals 54,100 units, with an additional 3,200 rental units currently under construction. According to CMHC's 2020 Rental Market Report, the Halifax rental market although slowing, remains tight and in need of increased supply. Halifax's diverse economy generates 54% of Nova Scotia's GDP and is home to 44% of the province's population. With six degree-granting universities and three large community college campuses, Halifax has approximately 39,600 full-time students, including 7,100 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 2020 Provincial Pulse report notes that while Nova Scotia experienced lower population growth in 2020 as a result of the pandemic, a significant increase in infrastructure spending is expected to offer short-term support for Nova Scotia's growth outlook. Despite the challenges reflected by decreased GDP and employment rates for 2020, the report notes Halifax remains Atlantic Canada's high value service sector hub, showing resilience with greater capacities for work to be carried out remotely. The economic outlook forecasts year-over-year gains in 2021 for Nova Scotia's GDP growth, employment rates and Consumer Price Index.

According to RBC's December 2020 Provincial Outlook, Nova Scotia's employment is quickly returning to pre-crisis levels, with 97% of pandemic job losses recovered by November 2020. Nova Scotia is expected to see enhanced public-sector capital investments, which will stimulate the province's economy, and provide an additional boost to employment in 2021. RBC projects provincial GDP to grow 4.3% in 2021, after contracting by 4.4% in 2020.

Over 300 companies are participating in ocean-sector businesses 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 for 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 totalling more than \$300 million over the next four years.

The following chart summarizes Halifax's population growth from 2005 to 2020, the most recent year for which detailed population growth data is available:



Source: Statistics Canada

Halifax's population growth in each of the last three years was 1.9%, 2.2% 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 26,500 people. The slight decrease in population growth from July 1, 2019 to June 30, 2020, compared to July 1, 2018 to June 30, 2019, is attributable to the pandemic, resulting in decreased immigration year-over-year. RBC's December 2020 Provincial Outlook predicts immigration to resume once immunization is well underway and return to pre-pandemic levels by the end of 2021.

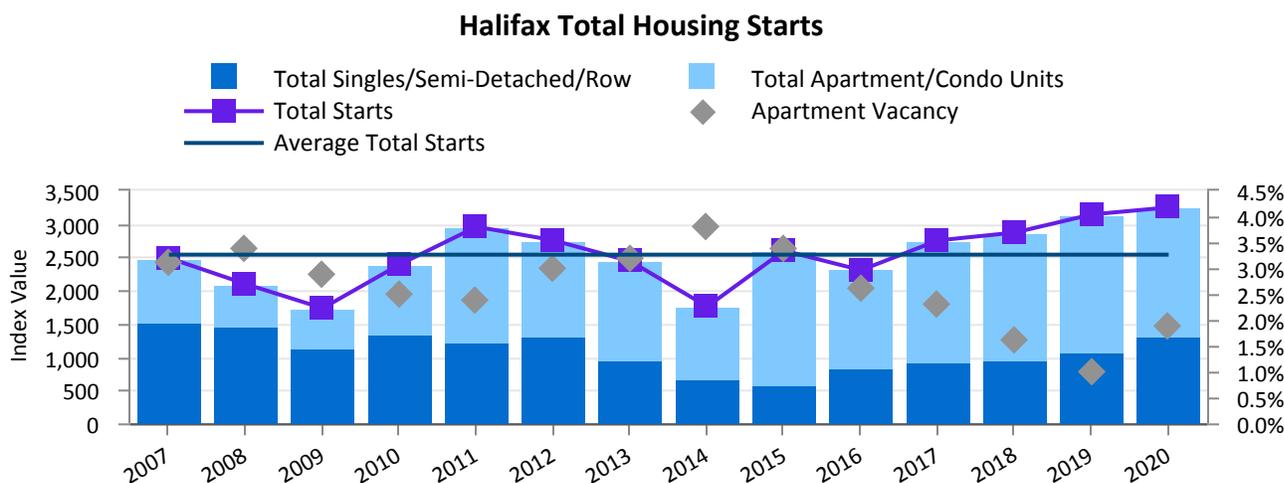
Statistics Canada reported net provincial migration in 2020 was 1,600, with the past five years seeing positive migration. Halifax has seen an increase in international immigration, representing 64% of Halifax's population growth in 2020.

2020 Management's Discussion and Analysis

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

According to CMHC's Rental Market Report, released in early 2021, Halifax currently has over 3,000 rental units under construction. CMHC's report states rising home prices coupled with record-low inventory are negatively impacting affordability for first-time home buyers, likely slowing the transition from rental to homeownership. CMHC's Rental Market Report reported Halifax's vacancy rose by 0.9% to 1.9% for 2020, compared to 1.0% in 2019. Halifax saw the highest vacancy in its downtown core and south peninsula, an area with high concentrations of students, reflecting the impact of the city's major universities offering their programs online and less international travel. Vacancy rates were higher in older and less expensive units, highlighting demand for renovations and redevelopment. Despite a lack of international immigration due to COVID-19 restrictions, net interprovincial migration has remained strong, increasing 8.0% in the second quarter of 2020, compared to the same period of 2019.

The following chart summarizes Halifax's housing start activity from 2007 to 2020:



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 RBC's December 2020 Provincial Outlook, New Brunswick's economy suffered in 2020 with a projected 4.2% decline in GDP, however, the outlook for 2021 is positive, with expected growth of 4.0%. RBC reports New Brunswick's labour market is recovering with 92% of job losses, as a result of the pandemic, recovered by fall 2020. Moncton, Fredericton and Saint John represent 8%, 7% and 4% of Killam's 2020 NOI, respectively.

According to CMHC, New Brunswick's vacancy was 3.1% in October 2020, compared to 2.6% in 2019. Increased vacancy is partially a result of new supply, approximately 2,200 units were completed in 2020.

St. John's, Newfoundland

Four percent of Killam's NOI is generated in St. John's, Newfoundland. RBC's December 2020 Provincial Outlook reported Newfoundland's economy is projected to see a 4.6% decline in GDP in 2020. Newfoundland's labour force made a strong recovery, being the only province where employment has returned to pre-pandemic levels by November 2020. However, due to the timing of large projects finishing up and newer ones being cancelled, this momentum is not expected to continue.

Prince Edward Island

Killam has a 17% share of the Charlottetown market, the provincial capital and the economic centre of Prince Edward Island. The Charlottetown apartment market accounted for 4% of Killam's total NOI in 2020. According to RBC's December 2020 Provincial Outlook report, PEI's economy is expected to be the first to recover to pre-COVID levels in 2021, with economic growth of 4.2% forecasted. While economic damage was less severe in PEI than seen in other provinces, the province is projected to see a 3.7% decline in GDP for 2020. CMHC reported Charlottetown vacancy of 2.2% in October 2020, an increase of 100 bps from October 2019, as the market appears to be responding to 1,100 new units entering the market in 2020, with only 415 absorbed in the year.

Ontario

Killam's Ontario apartment portfolio generated 17% of NOI in 2020. RBC's December 2020 Provincial Outlook reported Ontario experienced the largest economic contraction in history, a decline of 5.6%, as a result of extended and frequent lockdowns throughout the province. However, Ontario's economy is expected to lead all provinces in terms of growth in 2021, with immunization ramping up, an annual growth rate of 5.5% is projected. Overall, Ontario vacancy per CMHC was 3.2% for October 2020, up from 2.0% in October 2019.

2020 Management's Discussion and Analysis

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

Ottawa

According to CMHC's 2020 Rental Market Report, Ottawa's vacancy rates have risen to 3.9% compared to 1.8% in October 2019, as survey estimates indicate the number of newly occupied units increased by 887, while supply was nearly double at 2,316 units. The vacancy rate rose more significantly in centrally located areas as compared to outer suburban areas, as a result of reduced student and young professionals demand for units in the city's core. Despite increased vacancy, rents grew for all bedroom types, with average rent for a two-bedroom unit increasing 5.2%.

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 2020, CMHC reported vacancy of 2.1% unchanged compared to October 2019, with 2,422 new units entering the market in 2020. Vacancy rates declined in most zones, however, Waterloo's vacancy rate increased from 1.6% in October 2019 to 2.9% in October 2020, due to newly added units and pandemic related online study. CMHC attributes steady rental demand during 2020 to Canadian Emergency Response Benefit and Employment Insurance payments allowing tenants to continue paying rent.

London

The London primary rental market saw an increase in overall vacancy, from 1.8% in 2019 to 3.4% in 2020, as CMHC reported new supply was met with absent demand. CMHC's 2020 Rental Market Report reported a decline in net international migration levels as the driving force for lack of demand for new units.

Greater Toronto Area

According to CMHC's 2020 Report, GTA's vacancy rate increased from 1.5% in 2019 to 3.4% in 2020. The highest vacancy rates are located in Toronto's downtown core, with bachelor units at 5.5% vacancy, as COVID-19 restrictions have increased desire for larger and less centrally located units. The pandemic resulted in muted immigration in the GTA, with the closure of international borders impacting population growth, with 30,000 fewer immigrants and 11,000 fewer non-permanent residents in Q2-2020 compared to Q2-2019.

Alberta

Seven percent of Killam's NOI was earned in Alberta. RBC's December 2020 Provincial Outlook reported Alberta experienced the worst one-year decline on record, projecting an 8.3% decline in Alberta's economy. Recovery of Alberta's economy is expected to take longer than most Canadian provinces, while 4.5% growth is projected for 2021, RBC predicts it could take until 2023 to fully reverse 2020's damage. Increased oil production and capital investments into the energy sector are expected to have positive impacts on the economy in 2021.

Calgary

In its 2020 Rental Market Report, CMHC reported 6.6% vacancy for Calgary, up from 3.9% in October 2019, as economic downturn weakened demand. Calgary experienced weakened demand due to increased rental supply, job losses due to the COVID-19 pandemic and the eroded oil market, and negative net migration as a result of an outflow of interprovincial migration and reduced immigration. Average rent remains consistent with October 2019, indicating landlords are keeping rental rates the same while incentivizing tenants through non-price measures to remain competitive, such as free utilities, cash bonuses and free rent.

Edmonton

In Edmonton, CMHC reported 7.2% vacancy in October 2020, versus 4.9% in October 2019, with stable average rent year-over-year. Vacancy was higher in the city centre as well as among newly constructed units, which had an average rent 31.2% higher than existing units of all ages. These higher rents resulted in increased vacancy among newer units, reporting a vacancy rate of 12.0% in October 2020. CMHC reported demand for rental units has weakened over the past year as a result of the pandemic and the drop in oil prices, with over 121,000 jobs lost in the first half of 2020.

British Columbia

Killam entered the BC market in 2020, which made up 2% of NOI in the year. RBC's December 2020 Provincial Outlook projects a 5.3% contraction in BC's GDP for 2020, with positive outlook for 2021. Despite the pandemic, work on major capital projects in the province continued with minimal disruption in 2020, including construction on the Coastal GasLink pipeline and the LNG Kitimat project. The LNG Kitimat project is expected to hit its peak construction phase in 2021, creating 3,000 jobs. RBC expects strong capital investment and a rebound in major industrial sectors in 2021, predicting a 33-year high growth rate of 5.1%.

CMHC reported 2.2% vacancy for Victoria in October 2020, compared to 1.0% in October 2019. Rental demand slowed as the COVID-19 pandemic resulted in economic downturn and virtual working/schooling allowed renters to move further away from the city's core or combine households for affordability.

2020 Management's Discussion and Analysis

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

PART IV

2020 Financial Overview

Consolidated Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Property revenue	\$261,690	\$242,164	8.1%	\$232,074	\$227,577	2.0%	\$29,616	\$14,587	103.0%
Property operating expenses									
General operating expenses	41,610	37,602	10.7%	35,876	34,616	3.6%	5,734	2,986	92.0%
Utility and fuel expenses	23,240	23,515	(1.2)%	20,968	22,293	(5.9)%	2,272	1,222	85.9%
Property taxes	32,178	28,711	12.1%	27,858	26,638	4.6%	4,320	2,073	108.4%
Total operating expenses	\$97,028	\$89,828	8.0%	\$84,702	\$83,547	1.4%	\$12,326	\$6,281	96.2%
NOI	\$164,662	\$152,336	8.1%	\$147,372	\$144,030	2.3%	\$17,290	\$8,306	108.2%
Operating margin %	62.9%	62.9%	— bps	63.5%	63.3%	20 bps	58.4%	56.9%	150 bps

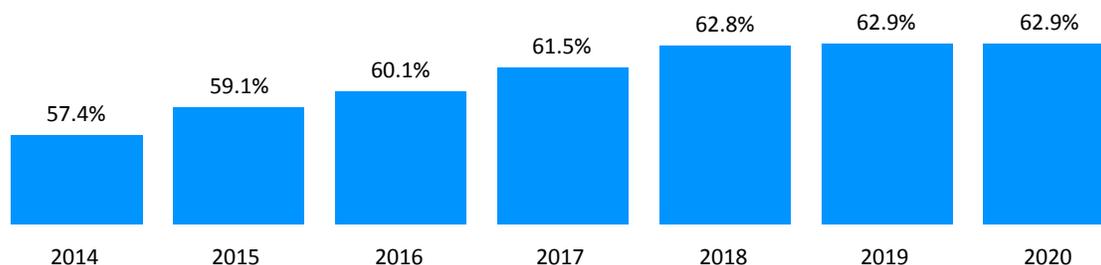
The resiliency of Killam's portfolio drove same property NOI growth for the year ended December 31, 2020. This strength, along with contributions from acquisitions and developments, resulted in 8.1% NOI growth for the year.

Same property results included properties owned during comparable 2020 and 2019 periods and represent 90.3% of the fair value of Killam's investment property portfolio as at December 31, 2020. Non-same property results include acquisitions, dispositions and developments completed in 2019 and 2020 and commercial assets acquired for future residential development.

Same property revenue grew by 2.0% for the year ended December 31, 2020, as compared to the same period of 2019. Same property revenue growth in 2020 was lower than recent years due to the impact of COVID-19, including decreased revenue at Killam's seasonal MHC resorts as a result of delayed spring openings and lower transient revenue, lower rental rate increases on renewals, and participation in the CECRA program for commercial tenants. Despite these short-term pandemic related impacts, strong rental rate growth on unit turns and continued strength in Killam's core markets generated overall same property revenue growth.

Total same property operating expenses increased 1.4% for the year ended December 31, 2020. The increase was largely driven by a 4.6% increase in property taxes as a result of higher assessments, which Killam actively appeals whenever possible, offset by a 5.9% decrease in utility and fuel expenses as a result of reduced consumption from energy efficiency projects, decreases in natural gas pricing across Killam's three largest regions and a decrease in the inclusion of unit electricity as part of the monthly rent. Overall, same property NOI grew by 2.3% for the year ended December 31, 2020.

Operating Margin %



2020 Management's Discussion and Analysis

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

Apartment Results

For the years ended December 31,

	Total			Same Property			Non-Same Property		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Property revenue	\$228,915	\$211,558	8.2%	\$207,282	\$202,489	2.4%	\$21,633	\$9,069	138.5%
Property operating expenses									
General operating expenses	34,269	30,689	11.7%	31,124	29,363	6.0%	3,145	1,326	137.2%
Utility and fuel expenses	20,537	21,081	(2.6)%	19,201	20,574	(6.7)%	1,336	507	163.5%
Property taxes	27,961	25,050	11.6%	25,287	24,228	4.4%	2,674	822	225.3%
Total operating expenses	\$82,767	\$76,820	7.7%	\$75,612	\$74,165	2.0%	\$7,155	\$2,655	169.5%
NOI	\$146,148	\$134,738	8.5%	\$131,670	\$128,324	2.6%	\$14,478	\$6,414	125.7%
Operating margin %	63.8%	63.7%	10 bps	63.5%	63.4%	10 bps	66.9%	70.7%	(380) bps

Apartment Revenue

Total apartment revenue for the year ended December 31, 2020, was \$228.9 million, an increase of 8.2% over the same period of 2019. Revenue growth was augmented by contributions from recently acquired and developed properties and higher rental rates.

Same property apartment revenue increased 2.4% for the year ended December 31, 2020, driven by increased rental rates, partially offset by a 40 bps decrease in occupancy. Killam's tenant base includes a diverse mix of tenants, including young professionals, seniors, empty nesters, families, and students. Since the onset of COVID-19, Killam has experienced relatively stable occupancy in most of its markets, however, Killam has seen increased vacancy in St. John's, Kanata (Ottawa) and downtown Calgary.

2020 Management's Discussion and Analysis

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

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

For the years ended December 31,	# of Units	Total Occupancy			Same Property Occupancy		
		2020	2019	Change (bps)	2020	2019	Change (bps)
Nova Scotia							
Halifax	5,814	97.8%	98.3%	(50)	97.8%	98.3%	(50)
Ontario							
Ottawa ⁽²⁾	1,216	94.1%	93.0%	110	93.7%	96.6%	(290)
London	523	96.8%	97.5%	(70)	96.8%	97.5%	(70)
Cambridge-GTA	818	98.0%	98.5%	(50)	98.1%	98.5%	(40)
New Brunswick							
Moncton	2,073	98.1%	98.3%	(20)	98.5%	98.3%	20
Fredericton	1,529	97.8%	97.9%	(10)	97.9%	97.9%	—
Saint John	1,202	96.7%	96.8%	(10)	96.7%	96.8%	(10)
Newfoundland and Labrador							
St. John's	915	87.6%	91.5%	(390)	87.6%	91.5%	(390)
Prince Edward Island							
Charlottetown ⁽³⁾	1,064	97.0%	99.5%	(250)	99.4%	99.4%	—
Alberta							
Calgary	531	94.4%	94.7%	(30)	95.2%	94.5%	70
Edmonton	579	93.5%	89.8%	370	94.8%	89.8%	500
British Columbia							
Victoria ⁽⁴⁾	315	95.3%	N/A	N/A	N/A	N/A	N/A
Other Atlantic							
	469	93.8%	97.1%	(330)	93.8%	97.1%	(330)
Total Apartments (weighted average)							
	17,048	96.5%	97.0%	(50)	96.8%	97.2%	(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.

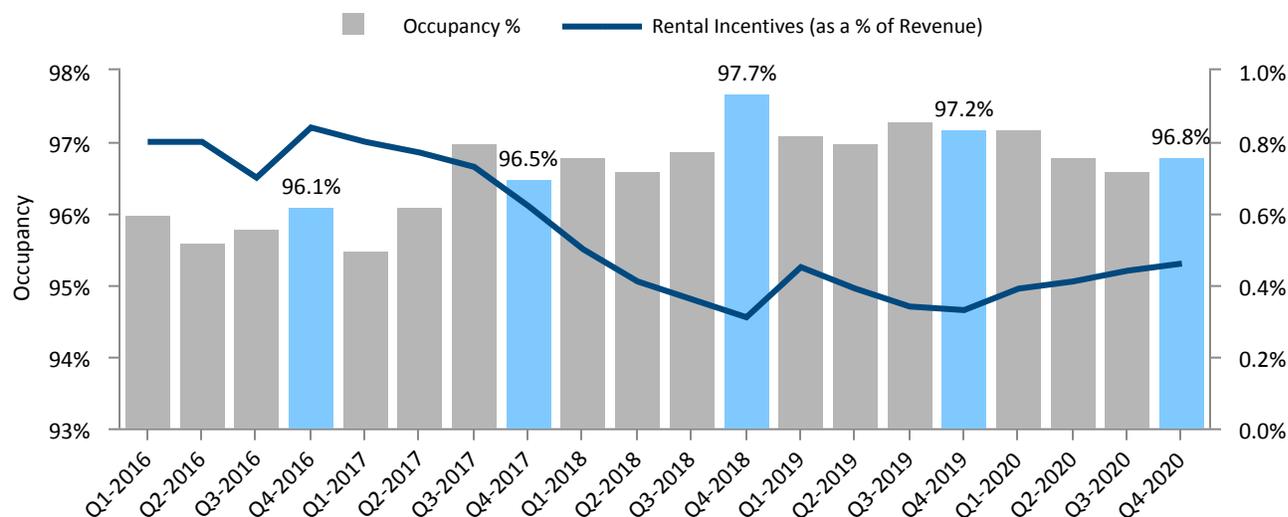
(2) Same property occupancy in Ottawa is down year-over-year as a result of vacancy at Killam's Kanata properties, related to new product delivered to the market in the area during Q4-2019.

(3) Total occupancy for Charlottetown was impacted by Shorefront, a recently completed 78-unit building, which opened in Q4-2020 and is in the initial lease-up phase.

(4) Killam owns two assets in Victoria, BC, one of which was undergoing initial lease-up during 2020, impacting total occupancy during the year.

For a detailed discussion on changes in occupancy levels during the quarter, refer to page 24 of this MD&A under section "Apartment Same Property NOI by Region".

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



2020 Management's Discussion and Analysis

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	2020	2019	% Change	2020	2019	% Change	
Nova Scotia								
Halifax	5,814	\$1,184	\$1,140	3.9%	\$1,184	\$1,140	3.9%	
Ontario								
Ottawa	1,216	\$1,798	\$1,753	2.6%	\$1,762	\$1,712	2.9%	
London	523	\$1,371	\$1,314	4.3%	\$1,371	\$1,314	4.3%	
Cambridge-GTA	818	\$1,556	\$1,493	4.2%	\$1,570	\$1,505	4.3%	
New Brunswick								
Moncton	2,073	\$1,046	\$926	13.0%	\$933	\$894	4.4%	
Fredericton	1,529	\$1,064	\$1,018	4.5%	\$1,046	\$999	4.7%	
Saint John	1,202	\$882	\$844	4.5%	\$882	\$844	4.5%	
Newfoundland and Labrador								
St. John's	915	\$1,006	\$992	1.4%	\$1,006	\$992	1.4%	
Prince Edward Island								
Charlottetown	1,064	\$1,080	\$1,011	6.8%	\$1,025	\$1,011	1.4%	
Alberta								
Calgary	531	\$1,263	\$1,241	1.8%	\$1,288	\$1,266	1.7%	
Edmonton	579	\$1,476	\$1,484	(0.5)%	\$1,441	\$1,449	(0.6)%	
British Columbia								
Victoria	315	\$1,729	N/A	N/A	N/A	N/A	N/A	
Other Atlantic								
	469	\$924	\$910	1.5%	\$924	\$910	1.5%	
Total Apartments (weighted average)		17,048	\$1,184	\$1,126	5.2%	\$1,150	\$1,112	3.4%

Same Property Rental Increases – Tenant Renewals versus Unit Turns

Killam typically turns approximately 30% to 32% of its units each year, with the trend declining in recent years, including 2020, where turnover levels were down 160 bps from 2019, at approximately 29%. Upon turn, Killam will typically generate rental increases by moving rental rates to market and, where market demand exists, by upgrading units for unlevered returns of 10%–15% on capital invested. During 2020, Killam saw a 20 bps decline in its same property weighted average rental rate increase, to 3.4%, compared to 3.6% for the same period of 2019. This decline was driven by lower rental increases on lease renewals as noted in the chart below.

For the years ended December 31,	2020		2019	
	Rental Increases	Turnovers & Renewals ⁽¹⁾	Rental Increases	Turnovers & Renewals ⁽¹⁾
Lease renewal	1.7%	71.2%	2.1%	69.6%
Unit turn – regular	5.7%	26.3%	5.8%	28.5%
Unit turn – repositioned ⁽²⁾	27.3%	2.5%	28.5%	1.9%
Rental increase (weighted avg)	3.4%		3.6%	

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

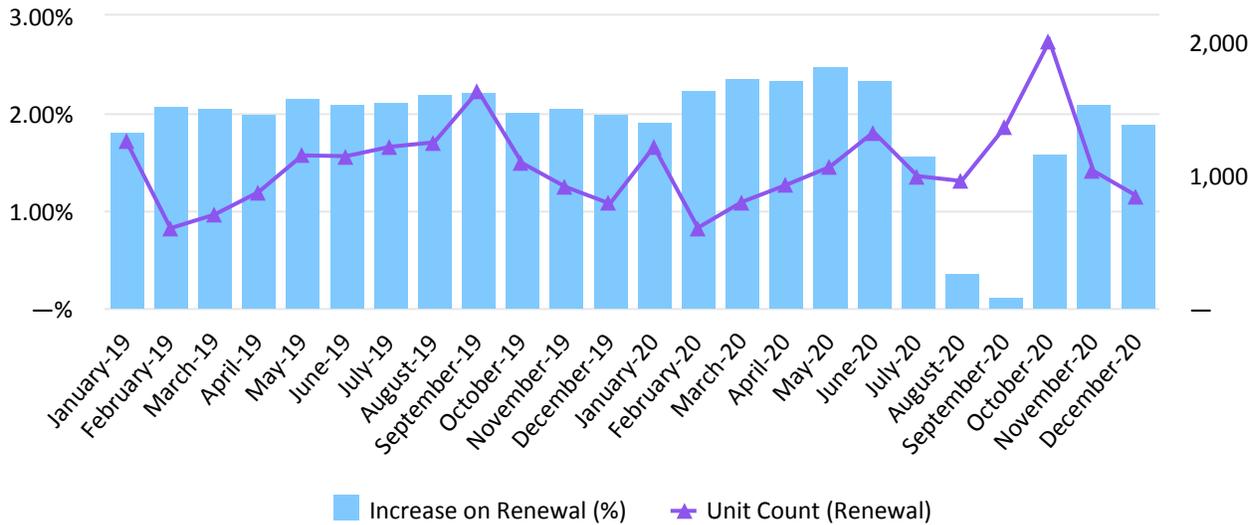
(2) The weighted average rental lift on the units repositioned is based on the 495 units re-leased during the year ended December 31, 2020.

Due to the economic uncertainty facing many Canadians during the emergency measures associated with the pandemic, Killam waived the collection of rental increases from April to July 2020 for lease renewals with increases being reinstated beginning in August or September for most properties. Killam also delayed distribution of rental increase notices to tenants between March and May 2020. As the required notice period to increase rents is a minimum of three months in most provinces across Canada, Killam did not begin collecting rental increases pertaining to these notices until Q4-2020. It was these measures to assist Killam's tenants during the height of the pandemic that resulted in a decline in rental increases on lease renewal in 2020.

2020 Management's Discussion and Analysis

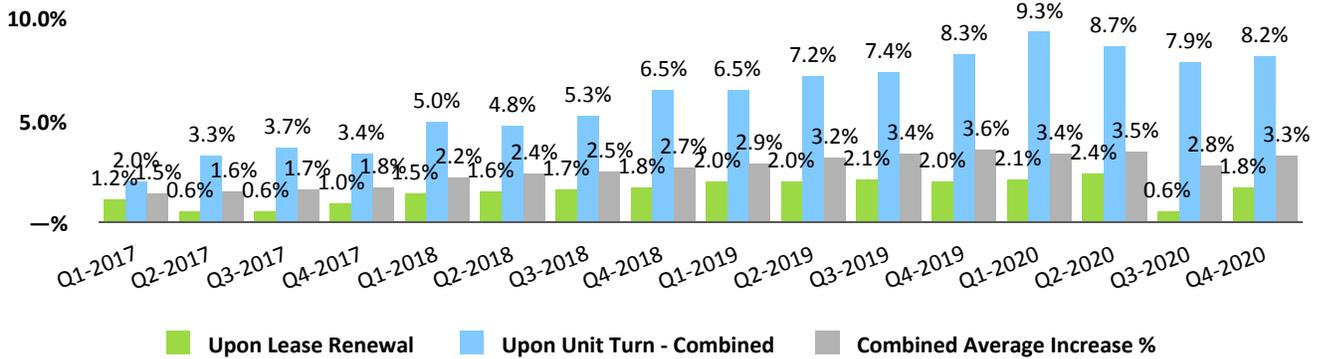
Dollar amounts in thousands of Canadian dollars (except as noted)

Number of Renewals and Rental Increases on Renewal (%)

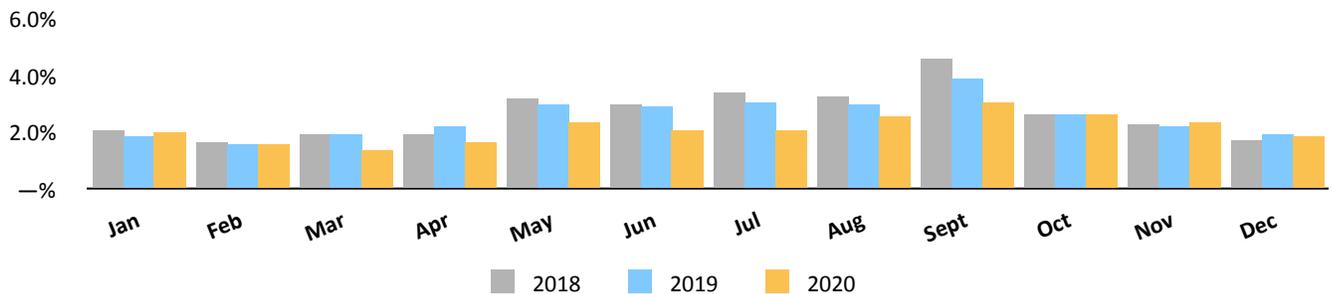


The following chart illustrates Killam's same property rental rate growth over the past four years.

Apartments - Historical Same Property Rental Rate Growth



Percentage of Units Turned by Month



2020 Management's Discussion and Analysis

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

Apartment Expenses

Total operating expenses for the year ended December 31, 2020, were \$82.8 million, a 7.7% increase over the same period of 2019, due primarily to incremental costs associated with recent acquisitions and developments, property taxes and general operating expense increases. The operating margin increased 10 bps, as lower utility costs and revenue optimization more than offset incremental operating costs.

Total apartment same property operating expenses for the year ended December 31, 2020, were 2.0% higher than the same period of 2019. The increase was driven by increased wages for front-line staff, higher insurance premiums, and property tax expense increases of 4.4%, over the same period of 2019. These increases were partially offset by decreased utility costs of 6.7%. These savings are attributable to lower natural gas pricing and consumption savings as a result of energy-efficiency initiatives and lower unit electricity costs.

Apartment Utility and Fuel Expenses – Same Property

For the years ended December 31,

	2020	2019	% Change
Natural gas	\$5,770	\$6,849	(15.8)%
Electricity	6,970	7,203	(3.2)%
Water	5,471	5,116	6.9%
Oil & propane	936	1,350	(30.7)%
Other	54	56	(3.6)%
Total utility and fuel expenses	\$19,201	\$20,574	(6.7)%

Killam's apartments are heated with natural gas (58%), electricity (33%), oil (5%), 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 Killam's 5,500 apartments heated with electricity. Fuel costs associated with central natural gas or oil-fired heating plants are paid by Killam.

Utility and fuel expenses accounted for approximately 25% of Killam's total apartment same property operating expenses for the year ended December 31, 2020. Total same property utility and fuel expenses decreased 6.7% for the year ended December 31, 2020.

Same property natural gas expense decreased by 15.8% for the year ended December 31, 2020. The decrease in natural gas expense was primarily attributable to decreases in commodity prices in Nova Scotia and Ontario of 22% and 18%, as well as a reduction in both delivery charges and commodity price in New Brunswick, resulting in a 6% decline in that province for the year. Increased efficiencies from boiler upgrades as well as above-average temperatures during the heating seasons also contributed to reduced consumption levels.

Electricity costs were 3.2% lower for the year ended December 31, 2020, primarily due to a reduction of unit electricity being included as part of a tenant's monthly rent in certain regions given strong market fundamentals, more than offsetting rising rates.

Water expense increased by 6.9% for the year ended December 31, 2020. The increase is primarily due to increased consumption as a result of tenants being at home more during the COVID-19 pandemic.

Heating oil and propane costs decreased by 30.7% for the year ended December 31, 2020, compared to the same period of 2019, as a result of lower oil prices.

2020 Management's Discussion and Analysis

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

Apartment Same Property NOI by Region

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Nova Scotia									
Halifax	\$82,012	\$79,480	3.2%	(\$27,920)	(\$27,756)	0.6%	\$54,092	\$51,724	4.6%
	82,012	79,480	3.2%	(27,920)	(27,756)	0.6%	54,092	51,724	4.6%
Ontario									
Ottawa	12,817	12,878	(0.5)%	(4,271)	(4,130)	3.4%	8,546	8,748	(2.3)%
London	8,239	7,972	3.3%	(2,852)	(2,679)	6.5%	5,387	5,293	1.8%
Cambridge-GTA	14,657	14,275	2.7%	(4,851)	(4,484)	8.2%	9,806	9,791	0.2%
	35,713	35,125	1.7%	(11,974)	(11,293)	6.0%	23,739	23,832	(0.4)%
New Brunswick									
Moncton	18,666	18,177	2.7%	(8,080)	(8,091)	(0.1)%	10,586	10,086	5.0%
Fredericton	17,800	17,123	4.0%	(7,054)	(6,933)	1.7%	10,746	10,190	5.5%
Saint John	12,432	12,030	3.3%	(5,738)	(5,829)	(1.6)%	6,694	6,201	8.0%
	48,898	47,330	3.3%	(20,872)	(20,853)	0.1%	28,026	26,477	5.9%
Newfoundland & Labrador									
St. John's	9,770	10,044	(2.7)%	(3,401)	(3,115)	9.2%	6,369	6,929	(8.1)%
	9,770	10,044	(2.7)%	(3,401)	(3,115)	9.2%	6,369	6,929	(8.1)%
Prince Edward Island									
Charlottetown	11,916	11,748	1.4%	(4,800)	(4,729)	1.5%	7,116	7,019	1.4%
	11,916	11,748	1.4%	(4,800)	(4,729)	1.5%	7,116	7,019	1.4%
Alberta									
Calgary	5,837	5,928	(1.5)%	(1,933)	(1,824)	6.0%	3,904	4,104	(4.9)%
Edmonton	7,898	7,506	5.2%	(2,726)	(2,604)	4.7%	5,172	4,902	5.5%
	13,735	13,434	2.2%	(4,659)	(4,428)	5.2%	9,076	9,006	0.8%
Other Atlantic locations	5,238	5,328	(1.7)%	(1,986)	(1,991)	(0.3)%	3,252	3,337	(2.5)%
	\$207,282	\$202,489	2.4%	(\$75,612)	(\$74,165)	2.0%	\$131,670	\$128,324	2.6%

Halifax

Halifax is Killam's largest rental market, contributing approximately 41% of apartment same property NOI for the year ended December 31, 2020. Same property apartment revenue increased 3.2% for the year ended December 31, 2020, as a result of a 3.9% increase in average rental rates, partially offset by an uptick in vacancy and the waiving of rental increases for April, May, June and July.

Total operating expenses for the year ended December 31, 2020, were 0.6% higher than the same period of 2019. Expense growth in the period was nominal as increased insurance premiums and higher realty taxes were mostly offset by reduced utility costs. The net impact was a 4.6% increase in NOI for the year ended December 31, 2020.

Ontario

Killam's Ontario portfolio generated approximately 18% of apartment same property NOI for the year ended December 31, 2020. Revenue increased by 1.7%, driven by a 3.6% increase in average rental rates, partially offset by a decrease in occupancy. Overall, the decrease in occupancy can be attributed to the reduction in immigration and lockdown measures in Ontario, as a result of the COVID-19 pandemic. In addition, the decline in Ottawa was further impacted by increased supply in the immediate neighbourhood to Killam's Kanata assets in late 2019. Management expects to see quarter-over-quarter gains in 2021.

Total operating expenses increased 6.0% for the year ended December 31, 2020, compared to the same period of 2019. This was primarily due to higher utility costs as a result of increased electricity and water consumption, increased realty taxes and higher front-line staffing costs for increased compensation related to COVID-19. In aggregate, same property NOI decreased 0.4% for the year ended December 31, 2020.

2020 Management's Discussion and Analysis

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

New Brunswick

Killam's apartments in Moncton, Fredericton and Saint John accounted for approximately 21% of apartment same property NOI for the year ended December 31, 2020. In aggregate, same property revenue increased 3.3% for the year ended December 31, 2020, following rental rate growth in Fredericton, Saint John and Moncton of 4.7%, 4.5% and 4.4%, respectively, partially offset by a slight uptick in vacancy in Saint John for the year.

For the year ended December 31, 2020, total operating expenses increased a modest 0.1% compared to the same period of 2019. A reduction in utility costs as a result of lower natural gas pricing and reduced unit electricity costs was offset by salary increases for front-line workers and higher insurance premiums and realty taxes. Overall, New Brunswick achieved an impressive 5.9% increase in same property NOI for the year ended December 31, 2020.

Newfoundland and Labrador

Killam's St. John's properties accounted for approximately 5% of apartment same property NOI for the year ended December 31, 2020. Same property revenue decreased 2.7% compared to the same period of 2019. While rental rates increased by 1.4%, occupancy was 390 bps lower year-over-year. Lower occupancy in the region is due to economic pressure that has been further impacted by COVID-19. The region has seen reduced activity in the offshore oil sector as well as declines in other natural resource sectors, on which the Newfoundland economy is heavily reliant.

Total operating expenses for the year ended December 31, 2020, were 9.2% higher than the same period of 2019. The increase in operating expenses was primarily due to higher staffing costs related to an expansion of the property management and leasing teams and higher insurance premiums. In aggregate, same property NOI was 8.1% lower for the year ended December 31, 2020.

Prince Edward Island

Killam's Charlottetown portfolio contributed approximately 5% of apartment same property NOI for the year ended December 31, 2020. Overall, Charlottetown achieved 1.4% revenue growth attributable to rental rate growth as occupancy levels remained strong at over 99%.

Total operating expenses for the year ended December 31, 2020, were 1.5% higher compared to the same period of 2019. The increase in operating expenses was primarily due to higher realty taxes and insurance premiums, slightly offset by lower oil costs. Overall, Charlottetown achieved a 1.4% increase in NOI for the year ended December 31, 2020, compared to the same period of 2019.

Alberta

Killam's Calgary properties accounted for approximately 3% of apartment same property NOI for the year ended December 31, 2020. Calgary same property revenue decreased 1.5%, compared to the same period of 2019, despite rental rate growth of 1.7% and a 70 bps increase in occupancy, due to decreased parking revenue at Killam's downtown Calgary asset (Grid 5) and increased rental incentive offerings. Total operating expenses for the year ended December 31, 2020, increased 6.0%, due to increased staffing costs, higher realty taxes and increased utility costs. Overall, Calgary realized decreased NOI of 4.9% for the year ended December 31, 2020.

Killam's Edmonton portfolio accounted for 4% of apartment same property NOI for the year ended December 31, 2020. Same property revenues increased 5.2%, as a result of a 500 bps increase in occupancy. Total operating expenses increased 4.7% for the year ended December 31, 2020. The increase in operating expenses was primarily due to the addition of on-site leasing staff, higher realty taxes and higher utility costs as a result of increased water consumption. Overall, Edmonton achieved increased NOI of 5.5% for the year ended December 31, 2020.

2020 Management's Discussion and Analysis

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		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Property revenue	\$17,393	\$16,806	3.5%	\$16,663	\$16,800	(0.8)%	\$730	\$6	N/A
Property operating expenses	6,541	6,342	3.1%	6,158	6,270	(1.8)%	383	72	N/A
NOI	\$10,852	\$10,464	3.7%	\$10,505	\$10,530	(0.2)%	\$347	(\$66)	N/A
Operating margin %	62.4%	62.3%	10 bps	63.0%	62.7%	30 bps	47.5%	—%	—

The MHC business segment generated 6.5% of Killam's NOI for the year ended December 31, 2020. Overall, same property NOI decreased by 0.2% for the year ended December 31, 2020, due to a short-term decline in income from Killam's seasonal resort portfolio as a result of COVID-19. The following table breaks down the same property revenue, expenses and NOI generated by Killam's permanent MHCs and seasonal resorts during the year.

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Permanent MHCs	\$11,800	\$11,493	2.7%	(\$4,222)	(\$4,156)	1.6%	\$7,578	\$7,337	3.3%
Seasonal Resorts	4,863	5,307	(8.4)%	(\$1,936)	(\$2,114)	(8.4)%	2,927	3,193	(8.3)%
	\$16,663	\$16,800	(0.8)%	(\$6,158)	(\$6,270)	(1.8)%	\$10,505	\$10,530	(0.2)%

For the year ended December 31, 2020, same property permanent MHCs generated a 3.3% increase in NOI, with average rent increasing 2.2% in Q4-2020, to \$278 per site compared to \$272 per site in Q4-2019. Combined permanent and seasonal MHC average rent decreased by 0.8%, to \$260 per site in 2020 from \$262 per site in 2019, and occupancy remained stable at 97.8%, consistent with 2019.

Killam's nine seasonal resorts were impacted by restrictions put into place by public health officials to curb the spread of COVID-19. As a result, Killam delayed opening its seasonal resorts and also had restrictions in place on transient camping, resulting in a 8.4% decrease in same property revenue for the year ended December 31, 2020 compared to the same period of 2019. Travel restrictions associated with the quarantine requirements for travellers from outside Atlantic Canada also contributed to lower revenue at Killam's New Brunswick seasonal resorts. The reduction in seasonal revenue was partially offset by lower same property operating expenses, which decreased 8.4% primarily due to decreased administration costs.

2020 Management's Discussion and Analysis

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

Commercial Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Property revenue	\$15,382	\$13,800	11.5%	\$8,129	\$8,288	(1.9)%	\$7,253	\$5,512	31.6%
Property operating expenses	7,720	6,666	15.8%	2,932	3,111	(5.8)%	4,788	3,555	34.7%
NOI	\$7,662	\$7,134	7.4%	\$5,197	\$5,177	0.4 %	\$2,465	\$1,957	26.0%

Killam's commercial property portfolio contributed \$7.7 million, or 4.7%, of Killam's total NOI for the year ended December 31, 2020. Killam's commercial property portfolio contains 749,661 SF, located in four of Killam's core markets. Commercial same property results represent 45.6% of Killam's commercial square footage and consist of Westmount Place located in Waterloo and three commercial properties, one of which is Killam's head office, located in Halifax, NS. Same property results do not include properties that were recently acquired or those that are slated for redevelopment and not operating as stabilized properties.

Total commercial occupancy on a per square foot basis was 91% as at December 31, 2020. Occupancy levels reflect the continued redevelopment of the Brewery Market in Halifax, which is currently 85.2% leased. The decline in same property commercial revenue during 2020 was driven by increased vacancy and participation in the CECRA program. During 2020, Killam filed CECRA applications for approximately 40 commercial tenants and recorded a total reduction in commercial revenue of \$0.3 million related to the program. Killam continues to work with tenants that did not qualify for CECRA on a case-by-case basis, and in certain cases has agreed to temporary rent deferrals for 60 to 90 days.

Killam self-manages its wholly owned commercial properties. Killam's commercial leasing activity has continued throughout 2020, successfully leasing a net new 39,000 square feet of commercial space across the portfolio during the year. Killam has also renewed 40,000 square feet of commercial space during 2020, with a weighted average net rate increase of 4.5%.

2020 Management's Discussion and Analysis

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

PART V

Other Income and Expenses

Other Income

For the years ended December 31,

	2020	2019	% Change
	\$641	\$6,059	(89.4)%

Other income includes property management fees for jointly held properties, interest on bank balances, and net revenue associated with the sale of homes in Killam's MHC segment. The 89.4% decrease for the year ended December 31, 2020, was due primarily to net insurance proceeds received in late 2019 related to a fire that occurred in July 2019 at a 29-unit apartment building and leasing fees earned in 2019 from the lease-up of the Frontier development.

Financing Costs

For the years ended December 31,

	2020	2019	% Change
Mortgage, loan and construction loan interest	\$44,055	\$41,954	5.0%
Interest on credit facilities	671	1,266	(47.0)%
Interest on Exchangeable Units	2,784	2,727	2.1%
Amortization of deferred financing costs	3,126	3,093	1.1%
Amortization of fair value adjustments on assumed debt	88	137	(35.8)%
Unrealized loss on derivative liability	483	235	105.5%
Interest on lease liabilities	385	298	29.2%
Capitalized interest	(2,673)	(2,267)	17.9%
	\$48,919	\$47,443	3.1%

Total financing costs increased \$1.5 million, or 3.1%, for the year ended December 31, 2020, as compared to the same period of 2019.

Mortgage, loan and construction loan interest expense was \$44.1 million for the year ended December 31, 2020, an increase of \$2.1 million, or 5.0%, compared to the same period of 2019. Killam's mortgage, loan and construction loan liability balance increased by \$209.9 million over the past twelve months as Killam up-financed maturing mortgages within its existing portfolio and obtained financing for acquisitions and developments. The average interest rate on refinancings for the year ended December 31, 2020, was 1.83%, 85 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 mortgages. CMHC insurance fees are amortized over the amortization period of the mortgage. Deferred financing amortization costs increased 1.1% for the year ended December 31, 2020, following mortgage refinancings and debt placement related to property acquisitions over the past twelve months. This expense may fluctuate annually with refinancings.

Capitalized interest increased \$0.4 million for the year ended December 31, 2020, compared to the same period of 2019. 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.

2020 Management's Discussion and Analysis

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

Depreciation Expense

For the years ended December 31,

	2020	2019	% Change
	\$630	\$720	(12.5)%

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.

Administration Expenses

For the years ended December 31,

	2020	2019	% Change
Administration	\$14,745	\$14,881	(0.9)%
As a percentage of total revenues	5.6%	6.0%	(40) 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, 2020, total administration expenses decreased by 0.9%, compared to the same period of 2019, due to lower restricted trust unit ("RTU") expense and travel related costs. Administration expenses as a percentage of total revenues were 5.6% for 2020, 40 bps lower than 2019.

Fair Value Adjustments

For the years ended December 31,

	2020	2019	% Change
Investment properties	\$46,885	\$244,130	(80.8)%
Deferred unit-based compensation	59	(1,590)	103.7%
Exchangeable units	7,676	(12,461)	161.6%
	\$54,620	\$230,079	(76.3)%

Killam recognized \$46.9 million in fair value gains related to investment properties for the year ended December 31, 2020, compared to \$244.1 million in fair value gains for the year ended December 31, 2019. During 2020, Killam recognized a fair value gain of \$53.8 million related to the apartment portfolio due to cap-rate compression, strong demand for units and increased NOI, \$1.8 million in fair value gains on its MHC portfolio and a net \$6.1 million gain related to IPUC and land held for future development. These gains were partially offset by fair value losses related to Killam's commercial portfolio of \$14.9 million.

Due to the ongoing impact of COVID-19, it is not possible to forecast with certainty the duration and full scope of the economic impact and other consequential changes it will have on Killam's business and operations, both in the short term and in the medium term. Certain aspects of Killam's business and operations that could potentially be impacted include market rents, collection of rental income, and occupancy, which all could ultimately impact NOI and the underlying valuation of investment properties.

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, 2020, there was an unrealized fair value gain of \$0.1 million, versus a \$1.6 million loss in the same period of 2019, due to changes in the market price of the underlying Killam trust units.

Distributions paid on exchangeable units are consistent with distributions paid to Killam's unitholders. The exchangeable units are redeemable on a one-for-one basis into trust units at the option of the holder. The fair value of the exchangeable units is based on the trading price of Killam's trust units. For the year ended December 31, 2020, there was an unrealized gain of \$7.7 million, compared to an unrealized loss of \$12.5 million in the same period of 2019, due to changes in the market price of Killam's trust units.

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

Deferred Tax Expense

For the years ended December 31,

	2020	2019	% Change
	\$9,590	\$40,636	(76.4)%

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 decreased \$31.0 million for the year ended December 31, 2020, compared to the same period of 2019, primarily due to a reduction in the Nova Scotia provincial tax rate and reduction in fair value gains on investment properties year-over-year.

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:

For the years ended December 31,	Weighted Average Number of Units (000s)			Outstanding Number of Units (000s) as at December 31, 2020
	2020	2019	% Change	
Trust units	100,225	91,565	9.5%	103,212
Exchangeable units	4,115	4,154	(0.9)%	4,102
Basic number of units	104,340	95,719	9.0%	107,314
Plus:				
Units under RTU plan	163	195	(16.4)%	—
Diluted number of units	104,503	95,914	9.0%	—

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

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. 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 year ended December 31, 2020 and 2019 are calculated as follows:

For the years ended December 31,

	2020	2019	% Change
Net income	\$146,040	\$283,525	(48.5)%
Fair value adjustments	(54,620)	(230,079)	(76.3)%
Non-controlling interest	(16)	11	(245.5)%
Internal commercial leasing costs	264	317	(16.7)%
Deferred tax expense	9,566	40,636	(76.5)%
Interest expense on exchangeable units	2,784	2,727	2.1%
Net insurance proceeds	—	(5,022)	(100.0)%
Loss on disposition	—	1,257	(100.0)%
Unrealized loss on derivative liability	483	235	(105.5)%
Depreciation on owner-occupied building	146	147	(0.7)%
Change in principal related to lease liabilities	31	130	(76.2)%
FFO	\$104,678	\$93,884	11.5%
FFO per unit – basic	\$1.00	\$0.98	2.0%
FFO per unit – diluted	\$1.00	\$0.98	2.0%
Weighted average number of units – basic (000s)	104,340	95,719	9.0%
Weighted average number of units – diluted (000s)	104,503	95,914	9.0%

Killam earned FFO of \$104.7 million, or \$1.00 per unit (diluted), for the year ended December 31, 2020, compared to \$93.9 million, or \$0.98 per unit (diluted), for the year ended December 31, 2019. FFO growth is primarily attributable to contributions from acquisitions and completed developments (\$6.3 million), same property NOI growth (\$3.1 million) and lower interest costs (\$1.0 million). These increases were partially offset by a 9.0% increase in the weighted average number of units outstanding.

Adjusted Funds from Operations

AFFO is a non-IFRS supplemental measure used by real estate analysts and investors to assess FFO after taking into consideration capital invested 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 39, and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 46 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 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:

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

Maintenance Capex Reserve - Apartments

	2020	2019	2018
Total capital investments	\$57,961	\$52,861	\$39,912
Value-enhancing capital investment			
Building	(14,055)	(17,407)	(13,004)
Suite upgrades	(22,956)	(18,718)	(12,361)
Equipment & other	(7,704)	(1,987)	(866)
	(44,715)	(38,112)	(26,231)
Maintenance capex	\$13,246	\$14,749	\$13,681
Maintenance capex - % of total capital	23%	28%	34%
Number of units ⁽¹⁾	16,209	15,513	14,685
Maintenance capex per unit	\$817	\$951	\$932
Maintenance capex - three-year average		\$900	

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

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

Maintenance capex includes all building improvements and suite renovation investment required to maintain current revenues. For the year ended December 31, 2020, Killam updated its maintenance capex reserve to reflect the actual capital investment for the most recent three years (2018–2020), which is equivalent to \$900 per unit. Based on this calculation, Management has selected \$900 per unit for its maintenance capex reserve for 2020, which is consistent with the 2019 reserve of \$900 per unit. Management will maintain this reserve in its calculation of AFFO throughout 2021 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 2020, 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 2020, approximately 23% 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, 2020, 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 \$345 over the past three years. Management selected \$300 per MHC site for its maintenance capex reserve for 2020, consistent with its 2019 reserve of \$300 per site.

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

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 in 2018 and 2019. Killam updated its maintenance capex reserve to reflect the actual capital investment for the most recent three years (2018–2020), which is equivalent to approximately \$0.79 per square foot. Based on this calculation, Management has selected \$0.80 per square foot for its commercial maintenance capex reserve for 2020.

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,

	2020	2019	% Change
FFO	\$104,678	\$93,884	11.5%
Maintenance capital expenditures	(16,860)	(16,237)	3.8%
Commercial straight-line rent adjustment	(555)	(423)	31.2%
Internal and external commercial leasing costs	(447)	(456)	(2.0)%
AFFO	\$86,816	\$76,768	13.1%
AFFO per unit – basic	\$0.83	\$0.80	3.7%
AFFO per unit – diluted	\$0.83	\$0.80	3.7%
AFFO payout ratio – diluted ⁽¹⁾	82%	82%	— bps
Weighted average number of units – basic (000s)	104,340	95,719	9.0%
Weighted average number of units – diluted (000s)	104,503	95,914	9.0%

⁽¹⁾Based on Killam's annual distribution of \$0.6767 for the year ended December 31, 2020, and \$0.65666 for the year ended December 31, 2019.

The payout ratio of 82% for the year ended December 31, 2020, is consistent with the payout ratio for the year ended December 31, 2019. The stability is attributable to a 13.1% increase in AFFO, driven by contributions from acquisitions and developments and same property NOI growth, 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.

2020 Management's Discussion and Analysis

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 statements of cash flows for the year ended December 31, 2020 and 2019) to ACFO is as follows:

For the years ended December 31,

	2020	2019	% Change
Cash provided by operating activities	\$123,514	\$95,208	29.7%
Adjustments:			
Changes in non-cash working capital not indicative of sustainable cash flows	(15,892)	2,049	(875.6)%
Maintenance capital expenditures	(16,860)	(16,237)	3.8%
External commercial leasing costs	(212)	(264)	(19.7)%
Amortization of deferred financing costs	(3,126)	(3,093)	1.1%
Interest expense related to lease liability	(31)	(133)	(76.7)%
Non-controlling interest	(16)	(11)	45.5%
ACFO	\$87,377	\$77,519	12.7%
Distributions declared ⁽¹⁾	71,731	63,805	12.4%
Excess of ACFO over cash distributions	\$15,646	\$13,714	14.1%
ACFO payout ratio – diluted ⁽²⁾	82%	82%	— bps

⁽¹⁾ Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 46.

⁽²⁾ Based on Killam's annual distribution of \$0.6767 for the year ended December 31, 2020, and \$0.65666 for the year ended December 31, 2019

Killam's ACFO payout ratio is 82% for the year ended December 31, 2020. Similarly to the AFFO payout ratio, Killam's first quarter typically has the highest ACFO payout ratio due to the lower operating margin in the period attributable to higher heating costs in the winter months and the fact the MHC portfolio typically generates its highest revenues and NOI during the second and third quarters of the year.

Cash Provided by Operating Activities and Distributions Declared

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

For the years ended December 31,

	2020	2019
Net income	\$146,040	\$283,525
Cash provided by operating activities	\$123,514	\$95,208
Total distributions declared	\$71,731	\$63,805
Excess of net income over total distributions declared	\$74,309	\$219,720
Excess of net income over net distributions paid ⁽¹⁾	\$95,834	\$238,253
Excess of cash provided by operating activities over total distributions declared	\$51,783	\$31,403

(1) Killam has a distribution reinvestment plan, which allows unitholders to elect to have all cash distributions from the Trust reinvested in additional units.

2020 Management's Discussion and Analysis

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

PART VII

Investment Properties

As at December 31,

	2020	2019	% Change
Investment properties	\$3,570,198	\$3,234,410	10.4%
Investment properties under construction ("IPUC")	128,100	46,867	173.3%
Land for development	43,620	39,327	10.9%
	\$3,741,918	\$3,320,604	12.7%

Continuity of Investment Properties

As at December 31,

	2020	2019	% Change
Balance, beginning of year	\$3,234,410	\$2,708,617	19.4%
Acquisition of properties	206,616	185,763	11.2%
Transfer to assets held for sale	—	(15,099)	(100.0)%
Transfer from IPUC	22,117	36,215	(38.9)%
Capital expenditures and development costs ⁽¹⁾	65,693	71,495	(8.1)%
Fair value adjustment - Apartments	53,765	208,624	(74.2)%
Fair value adjustment - MHCs	1,820	38,540	(95.3)%
Fair value adjustment - Commercial	(14,862)	(1,549)	859.5%
Impact of change in right-of-use asset	639	1,804	(64.6)%
Balance, end of year	\$3,570,198	\$3,234,410	10.4%

⁽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, 2020 and December 31, 2019, is as follows:

For the years ended December 31,

Capitalization Rates	2020			2019		
	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	3.25%	7.00%	4.67%	3.50%	8.00%	4.76%
MHCs	5.00%	6.50%	5.64%	5.00%	6.50%	5.65%

Killam's effective weighted average cap-rate for its apartment and MHC portfolios at December 31, 2020 was 4.67% and 5.64%, relatively consistent with the cap-rates as at December 31, 2019. The cap-rate change primarily relates to small cap-rate compression the New Brunswick and Prince Edward Island markets. The COVID-19 pandemic has resulted in a higher degree of uncertainty surrounding market values, and management estimated cap-rates at year-end based on the current information available.

Killam reviewed its valuation of investment properties in light of COVID-19 as at December 31, 2020. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes on Killam's business and operations, both in the short-term and in the long-term. In the long-term scenario the aspects which could be impacted include rental rates, occupancy and cap-rates, which would impact the underlying valuation of investment properties. Killam has applied judgement in estimating the valuation given the uncertainties surrounding the economic impact of COVID-19. Key assumptions for the apartment portfolio include reflecting lower rental rate increases and increased vacancy in regions seeing more significant economic downturn, including Alberta and Newfoundland. For commercial assets, adjustments were made to lease up assumptions, increased credit allowances and adjustments to the discount and terminal rates.

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

The quantitative sensitivity analysis shown below illustrates the value increase or decrease in Killam's portfolio of apartment properties given the change in the noted input:

Cap-rate Sensitivity Increase (Decrease)	Fair Value of Investment Properties ⁽¹⁾	Effective Weighted Average	Fair Value Variance	% Change
(0.50)%	\$3,832,018	4.23%	\$400,950	12%
(0.25)%	3,617,459	4.48%	186,391	5%
—%	3,431,068	4.73%	—	—%
0.25%	3,253,259	4.98%	(177,809)	(5)%
0.50%	3,097,378	5.23%	(333,690)	(10)%

⁽¹⁾ Includes Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method.

2020 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Ownership Interest	Property Type	Units/SF	Purchase Price ⁽¹⁾	
						Income-producing Properties	Land for Development
Christie Point	Victoria, BC	15-Jan-20	100%	Apartment	161	\$54,000	\$—
9 Carrington	Halifax, NS	31-Jan-20	100%	Apartment	54	8,800	—
Domaine Parlee	Shediac, NB	23-Mar-20	100%	MHC	89	3,950	—
1325 Hollis	Halifax, NS	31-Mar-20	100%	Apartment	7	3,700	—
Crossing at Belmont	Langford, BC	30-Apr-20	100%	Apartment	156	60,000	—
3644 & 3670 Kempt Rd	Halifax, NS	15-Jul-20	100%	Commercial	12,700	2,500	—
Luma	Ottawa, ON	30-Jul-20	50%	Development Land	—	—	4,300
171 & 181 Leopold	Moncton, NB	26-Oct-20	100%	Apartment	107	17,600	—
1538 Carlton Street	Halifax, NS	30-Oct-20	100%	Development Land	—	—	1,200
88 Sunset	Moncton, NB	13-Nov-20	100%	Apartment	162	55,000	—
Total Acquisitions						\$205,550	\$5,500

⁽¹⁾ Purchase price does not include transaction costs.

Christie Point

On January 15, 2020, Killam completed the acquisition of a 161-unit apartment building in Greater Victoria, BC, for \$54.0 million. The property features five two-storey buildings and four two-storey townhouse buildings.

9 Carrington

On January 31, 2020, Killam completed the acquisition of a 54-unit apartment building in Halifax, NS, for \$8.8 million.

Domaine Parlee

On March 23, 2020, Killam completed the acquisition of an 89-site MHC park in Shediac, NB, for \$3.9 million.

1323-1325 Hollis

On March 31, 2020, Killam completed the acquisition of a 7-unit apartment building in Halifax, NS, for \$3.7 million that also includes land for future development.

Crossing at Belmont

On April 30, 2020, Killam completed the acquisition of a 156-unit apartment complex in Langford, BC, for \$60.0 million.

3644 & 3670 Kempt Road

On July 15, 2020, Killam acquired a commercial property located next to its head office for \$2.5 million.

Luma

On July 30, 2020, Killam acquired a 50% interest in a parcel of land for development in Ottawa, ON, to jointly develop a 168-unit apartment building, for \$4.3 million.

171 & 181 Leopold

On October 26, 2020, Killam completed the acquisition of a 107-unit apartment building in Moncton, NB, for \$17.6 million.

1538 Carleton Street

On October 30, 2020, Killam acquired a parcel of land for development in Halifax, NS, for \$1.2 million.

88 Sunset

On November 13, 2020, Killam completed the acquisition of a 162-unit apartment building in Moncton, NB, for \$55.0 million.

2020 Management's Discussion and Analysis

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

Investment Properties Under Construction

As at December 31,

	2020	2019	% Change
Balance, beginning of year	\$46,867	\$37,163	26.1%
Fair value adjustment	10,184	774	1,215.8%
Capital expenditures	76,050	29,341	159.2%
Interest capitalized	1,686	754	123.6%
Acquisitions	3,968	—	N/A
Transfer to investment properties	(22,117)	(36,215)	(38.9)%
Transfer from land for development	11,462	15,050	(23.8)%
Balance, end of year	\$128,100	\$46,867	173.3%

Land for Development

As at December 31,

	2020	2019	% Change
Balance, beginning of year	\$39,327	\$61,028	(35.6)%
Fair value adjustment ⁽¹⁾	(4,022)	(1,663)	141.9%
Capital expenditures	3,339	5,700	(41.4)%
Interest capitalized	987	1,513	(34.8)%
Acquisitions	1,237	6,200	(80.0)%
Transfer to IPUC	(11,462)	(15,050)	(23.8)%
Transfer from (to) held for sale ⁽¹⁾	14,214	(18,401)	(177.2)%
Balance, end of year	\$43,620	\$39,327	10.9%

⁽¹⁾ During the year, Killam recorded a fair value loss of \$6.3 million on development land in downtown Calgary, AB. Killam determined that this parcel of land for development, previously classified as held for sale, no longer met the criteria for this classification. As at March 31, 2020, Killam reclassified the land from held for sale to land for development. As at December 31, 2020, the property has a carrying value of \$8.1 million (Killam's 40% interest).

Killam's development projects currently underway as at December 31, 2020, include the following five projects:

Property	Location	Ownership	Number of Units ⁽¹⁾	Project Budget (millions) ⁽³⁾	Start Date	Estimated Year of Completion	Percent Complete	Anticipated All-cash Yield
10 Harley Street	Charlottetown, PE	100%	38	\$10.4	2019	Q1-2021	95%	5.00% - 5.25%
Latitude	Ottawa, ON	50%	104	\$42.0	2019	2022	56%	4.75% - 5.00%
The Kay	Mississauga, ON	100%	128	\$57.0	2019	Q4-2021	55%	4.75% - 5.00%
Luma	Ottawa, ON	50%	84	\$44.3	2019	2022	43%	4.00% - 4.25%
Civic 66	Kitchener, ON	100%	169	\$69.7	2020	2022	21%	4.75% - 5.00%
Total ⁽²⁾			523	\$223.4				

⁽¹⁾ Represents Killam's ownership interest and number of units in the development.

⁽²⁾ Killam also held a 10% interest in the Nolan Hill development project in Calgary as at December 31, 2020, totalling 233 units, which is included in IPUC. Killam acquired the remaining 90% interest in January 2021.

⁽³⁾ Project budget excluding land costs.

Shorefront

Killam's 78-unit, five-storey, Shorefront development in Charlottetown, PE, reached substantial completion in October 2020. Final project costs are estimated to be approximately \$22.0 million (\$282,000/suite), resulting in an all-cash yield of approximately 5.25%, a 50-75 bps premium over the market cap-rate for a similar quality asset. The property is currently 55% leased.

10 Harley Street

Killam's 38-unit 10 Harley project is expected to cost approximately \$10.4 million (\$274,000/suite). Construction is 95% complete and the building is expected to open with tenants moving in during Q1-2021.

Latitude

Latitude, the second phase of the Gloucester City Centre development, containing 209 units, broke ground during Q2-2019 and is expected to be completed in early 2022. The total cost is budgeted at \$84.0 million (\$42.0 million for Killam's 50% interest). Construction financing was placed on this project during Q3-2020 and all remaining development costs will be funded through this financing.

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

The Kay

The budget for this 128-unit development located in Mississauga, ON, is \$57.0 million, or \$445,500 per suite, with an anticipated all-cash yield in the range of 4.75% - 5.00%, approximately a 125–175 bps premium over the market cap-rate for a similar quality asset. The development broke ground during the third quarter of 2019 and is expected to be completed in late 2021. Construction financing was put in place during Q2-2020 and all remaining development costs will be funded through this financing.

Luma

On July 30, 2020, Killam acquired a 50% interest in a parcel of land for development from RioCan REIT to jointly develop a 169-unit apartment building adjacent to the grocery-anchored Elmvalle Acres Shopping Centre in Ottawa. Subsequent to this purchase, Killam invested \$9.8 million to reflect Killam's portion of construction costs completed to date. This development broke ground in Q3-2019 and is expected to be completed in early 2022. Killam's 50% cost is approximately \$44.3 million with a 4.00% - 4.25% yield. Construction financing was put in place during Q4-2020 and all remaining development costs will be funded through this financing.

Civic 66

In 2018, Killam acquired land in Kitchener, ON, with plans to develop a 169-unit, eleven-storey, apartment building. The budget for the development is \$69.7 million, or \$412,000 per suite, with an anticipated all-cash yield in the range of 4.75% - 5.00%, approximately a 125–175 bps premium over the market cap-rate for a similar quality asset. Killam started construction in July 2020 and it is expected to take 24 months to complete. Killam expects its equity contribution to be completed in the first half of 2021, at which time construction financing will be placed.

Nolan Hill

Phase 1 of the Nolan Hill development located in Calgary, of which Killam had a 10% interest, broke ground during Q4-2019 and construction was completed in January 2021. The cost of Killam's 10% interest was \$4.8 million and on January 21, 2021, Killam acquired the remaining 90% interest in the 233-unit three building complex at a fixed price of \$49.5 million. Based on the purchase price of \$55.0 million for a 100% interest, Killam recorded a fair value gain of \$0.7 million on its 10% interest.

Killam secured financing for the Nolan Hill property through CMHC's Rental Construction Financing initiative (RCFi), a National Housing Strategy program that supports rental housing construction projects to encourage a stable supply of rental housing for middle-class families across Canada. Seventy-eight units at this property have rents at 70% of market rate, averaging \$1,014, or \$1.20 per square foot. The remaining 154 units are priced at \$1,403 per average unit, or \$1.74 per square foot. The property opened in January 2021 and is currently 31% leased.

Future Development Pipeline

Killam has a robust development pipeline. Fifty-five percent of Killam's development pipeline is outside Atlantic Canada. Killam targets yields of 4.75% - 5.50% on developments, 50 - 150 bps higher than the expected cap-rate value on completion. Building out the approximate \$1.0 billion pipeline at a 100 bps spread should create approximately \$250.0 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
<u>Developments expected to start in 2021</u>					
The Governor ⁽²⁾	Halifax, NS	100%	12	Building permit	2022
Westmount Place (Phase 1)	Waterloo, ON	100%	140	In design and approval process	2024
<u>Developments expected to start in 2022-2026</u>					
Carlton East & West	Halifax, NS	100%	140	In design	2024
Stratford land	Charlottetown, PE	100%	175	In design	2024
Sherwood Crossing	Charlottetown, PE	100%	325	In design	2025
Hollis Street	Halifax, NS	100%	90	In design	2025
Gloucester City Centre (Phase 3-4)	Ottawa, ON	50%	200	In design	2025
Westmount Place (Phase 2-5)	Waterloo, ON	100%	908	In design	2028
<u>Additional future development projects</u>					
Gloucester City Centre (Phase 5)	Ottawa, ON	50%	100	Future development	TBD
Kanata Lakes	Ottawa, ON	50%	40	Future development	TBD
St. George Street	Moncton, NB	100%	60	Future development	TBD
15 Haviland	Charlottetown, PE	100%	60-90	Future development	TBD
Christie Point	Victoria, BC	100%	312	Future development	TBD
Medical Arts	Halifax, NS	100%	200	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⁽³⁾			3,067		

(1) Represents Killam's ownership in the potential development units.

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

(3) In addition, Killam has a 10% interest in the remaining three phases of Nolan Hill, totalling another 596 units.

2020 Management's Discussion and Analysis

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

Capital Improvements

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

During the year ended December 31, 2020, Killam invested \$65.7 million of capital in its existing portfolio, compared to \$62.0 million for the year ended December 31, 2019. This increase reflects the timing of the completion of larger capital projects year-over-year as well as increased investment in Killam's repositioning program, partially offset by delays in the start of capital projects as a result of COVID-19. Capital investment associated with Killam's repositioning program increased in 2020 as demand for these repositioned units has remained strong. Killam has also increased capital investment associated with its commercial portfolio, specifically with leaseholds for new tenants at the Brewery Market and curb appeal investments at Westmount Place.

For the year ended December 31,

	2020	2019	% Change
Apartments	\$57,961	\$52,861	9.6%
MHCs	4,392	5,016	(12.4)%
Commercial	3,340	4,162	(19.8)%
	\$65,693	\$62,039	5.9%

Apartments - Capital Investment

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

For the year ended December 31,

	2020	2019	% Change
Building improvements	\$23,290	\$25,881	(10.0)%
Suite renovations	23,971	18,515	29.5%
Appliances	2,995	2,700	10.9%
Boilers and heating equipment	3,729	3,496	6.7%
Other	3,976	2,269	75.2%
Total capital invested	\$57,961	\$52,861	9.6%
Average number of units outstanding ⁽¹⁾	16,209	15,513	4.5%
Capital invested - \$ per unit	\$3,576	\$3,408	4.9%

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

Killam invested \$3,576 per unit for the year ended December 31, 2020, compared to \$3,408 per unit for the same period of 2019. This increase is largely attributable to increased suite renovation investments, partially offset by certain larger projects being deferred, as a result of physical distancing restrictions and the uncertainty surrounding COVID-19.

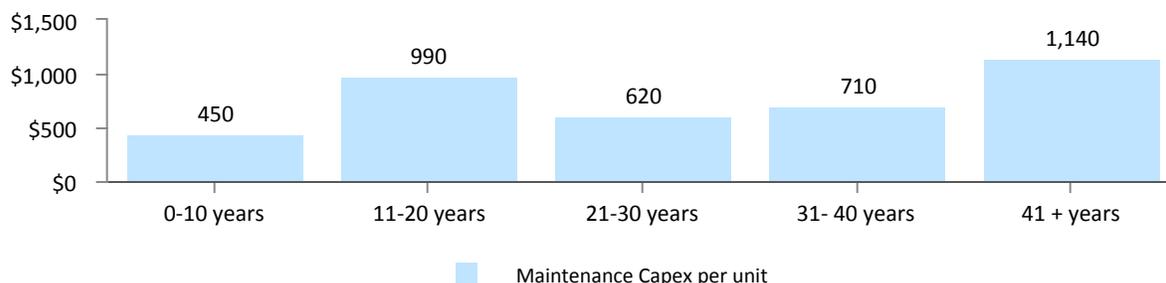
Killam's focus on development and acquisition of newer properties translates into a lower capital maintenance per unit than many other apartment owners in Canada. Thirty-six percent of Killam's apartments, as a percentage of 2021 forecasted NOI, were built in the past 10 years, and the average age of Killam's portfolio is 28 years. This portfolio of relatively newer assets allows Killam to focus on value-enhancing opportunities as the maintenance capital requirements are lower.

2020 Management's Discussion and Analysis

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

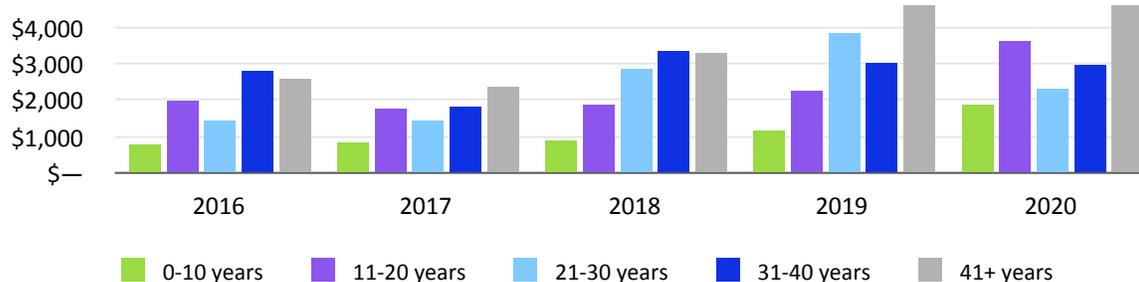
Maintenance capital requirements vary significantly by age of property. As the following chart illustrates, the approximate 2020 maintenance capex for properties built in the past 10 years was \$450 per unit vs. \$1,140 per unit for units that were 40+ years old.

**Average Maintenance Capital Investment per Unit by Building Age
(Based on 2020 Actual Investment)**



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 \$1,900 per unit, compared to \$4,650 per unit for buildings over 40 years old.

Average Capital Spend per Unit by Building Age



Building Improvements

Of the \$58.0 million total capital invested in the apartment segment for the year ended December 31, 2020, approximately 40% was invested in building improvements, compared to 49% of the total capital investment for the year ended December 31, 2019. These investments include exterior cladding and brick work, balcony refurbishments, roof upgrades, sidewalk replacements, common area upgrades and energy and water efficiency investments, such as air sealing and low-flow toilet upgrades, to increase the quality and efficiency of Killam's portfolio. The year-over-year variances relate primarily to the timing and deferral of certain larger projects due to COVID-19 and a slowdown in the completion of common area upgrades as a result of physical distancing requirements.

Suite Renovations and Repositionings

For the year ended December 31, 2020, Killam invested \$24.0 million in suite renovations, a 29.5% increase over the total investment of \$18.5 million for the same period of 2019. This increase is due to the acceleration of Killam's repositioning program. Killam continues to focus on unit renovations to maximize occupancy and rental growth. Killam targets a minimum return on investment of 10% for its suite repositions, earning rental growth of 10%–30%. The timing of suite reposition investment is influenced by natural 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 the year, Killam completed 495 unit repositions, with an average investment of approximately \$25,000 per suite, generating an average ROI of 13.0%.

2020 Management's Discussion and Analysis

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

A summary of the repositioning activities for the year ended December 31, 2020 is set out below:

Region	2020 Repositioning Program					Total Remaining Units Eligible to Reposition
	Units Repositioned	Average Investment per Unit	Rental Increase Achieved/Proposed % ⁽¹⁾	Avg Return on Investment		
Nova Scotia	342	\$24,300	22%	12%		3,000
Ontario	43	\$35,600	33%	15%		500
New Brunswick	96	\$19,750	29%	16%		1,300
Newfoundland	5	\$34,200	29%	9%		150
Alberta	9	\$33,650	30%	13%		50
Total (weighted average)	495	\$25,000	24%	13%		5,000

⁽¹⁾ The weighted average rental lift on the units repositioned during the year is based on the proposed rental rate prior to the unit being leased. Killam's weighted average rental increase on repositioned units leased during the year ended December 31, 2020 was 27.3%.

In the long term, Killam estimates that the reposition opportunity within the current portfolio is approximately an additional 5,000 units, which should generate an estimated \$17.0 million in additional annualized revenue, representing an approximate \$340.0 million increase in NAV.

Expanding our Sustainability Focus

Killam continued to execute on its energy efficiency plan throughout 2020. Killam will continue to invest in additional energy efficiency initiatives, which include the installation of photovoltaic solar panels at select properties and heating efficiencies. Since 2015, Killam has installed over 11,500 low-flow toilets, saving an estimated 700 million litres of water annually across the portfolio and generating approximately \$1.6 million in water consumption savings. Killam plans to complete more water conservation projects in the future, however, these projects were put on hold temporarily to reduce interactions with tenants inside their units. Killam also plans to augment its sustainability programs and improve its GRESB rating. Killam is committed to lowering and reporting on its greenhouse gas emissions and also completing benchmarking using third-party validation.

MHCs - Capital Investment

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

For the year ended December 31,

	2020	2019	% Change
Water and sewer upgrades	\$2,164	\$1,946	11.2%
Site expansion and land improvements	571	465	22.8%
Other	1,177	1,507	(21.9)%
Roads and paving	351	748	(53.1)%
Equipment	129	350	(63.1)%
Total capital invested - MHCs	\$4,392	\$5,016	(12.4)%
Average number of sites	5,855	5,486	6.7%
Capital invested - \$ per site	\$750	\$914	(17.9)%

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 invested during the year ended December 31, 2020 was \$4.4 million, down from \$5.0 million for the year ended December 31, 2019. The decrease in capital investment is due to timing of various community enhancements and water and sewer upgrades. As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community.

Commercial - Capital Investment

During the year ended December 31, 2020, Killam invested \$3.3 million in its commercial portfolio, compared to \$4.2 million for the year ended December 31, 2019. These investments relate primarily to upgrades and tenant improvements at the Brewery Market as Killam continues to reposition this property, as well as common area upgrades at Westmount Place.

2020 Management's Discussion and Analysis

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,	2020	2019	Change
Weighted average years to debt maturity	4.6	4.5	0.1 years
Total debt to total assets	44.6%	43.4%	120 bps
Interest coverage	3.36x	3.20x	5.0%
Debt service coverage	1.57x	1.57x	—%
Debt to normalized EBITDA ⁽¹⁾	10.78x	10.15x	6.2%
Weighted average mortgage interest rate	2.69%	2.90%	(21) bps
Weighted average interest rate of total debt	2.69%	2.92%	(23) 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, 2020, was 2.69%, 21 bps lower compared to the rate as at December 31, 2019.

Total debt as a percentage of total assets was 44.6% at December 31, 2020, compared to 43.4% at December 31, 2019. The nominal increase in total leverage is attributable mainly to the timing of an equity raise in November 2019 and repayment of the outstanding balance on Killam's line of credit prior to year-end. 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.

The quantitative sensitivity analysis shown below illustrates the value increase or decrease in Killam's debt to asset ratio given the change in the noted input:

Cap-rate Sensitivity Increase (Decrease)	Fair Value of Investment Properties ⁽¹⁾	Total Assets	Total Debt as % of Total Assets	Change (bps)
(0.50)%	\$3,832,018	\$4,028,807	41.7%	(460)
(0.25)%	\$3,617,459	\$3,814,248	44.0%	(230)
—%	\$3,431,068	\$3,627,857	46.3%	—
0.25%	\$3,253,259	\$3,450,048	48.7%	240
0.50%	\$3,097,378	\$3,294,167	51.0%	470

⁽¹⁾ Includes Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method.

2020 Management's Discussion and Analysis

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

Refinancings

For the year ended December 31, 2020, Killam refinanced the following mortgages:

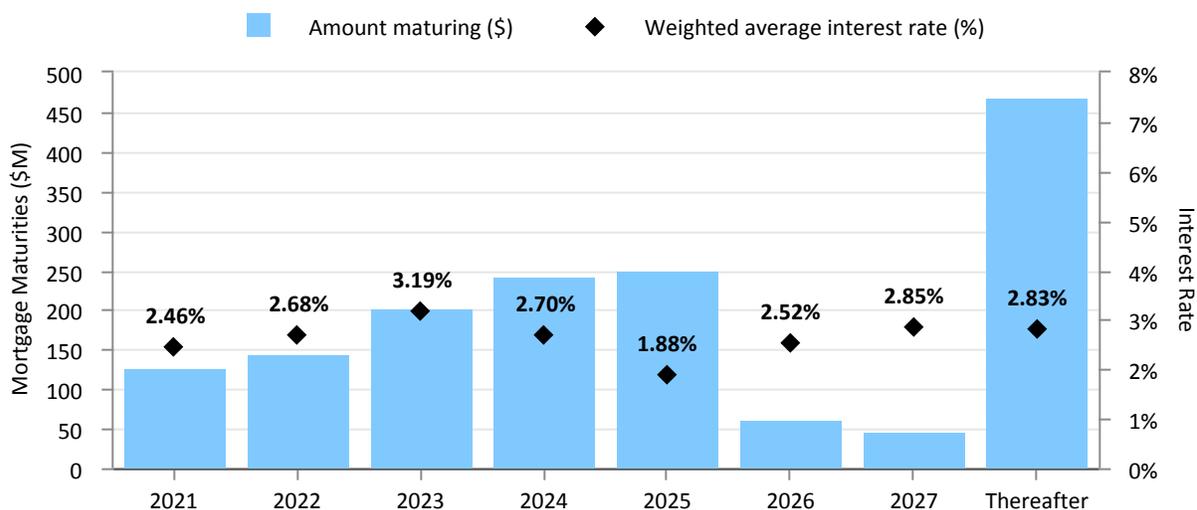
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	\$205,650	2.63%	\$274,736	1.76%	6.7 years	\$69,086
MHCs	13,432	3.45%	22,398	2.66%	5.0 years	8,966
	\$219,082	2.68%	\$297,134	1.83%	6.6 years	\$78,052

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:

Year of Maturity	Apartments			MHCs and Commercial		Total	
	Balance December 31	Weighted Avg Int. Rate %	% CMHC Insured	Balance December 31	Weighted Avg Int. Rate %	Balance December 31 ⁽¹⁾	Weighted Avg Int. Rate %
2021	129,089	2.46%	86.4%	12,089	3.55%	141,178	2.56%
2022	146,638	2.68%	47.9%	24,106	3.58%	170,744	2.81%
2023	203,275	3.19%	67.4%	31,343	3.78%	234,618	3.27%
2024	244,726	2.70%	92.6%	13,169	3.49%	257,895	2.74%
2025	251,354	1.88%	79.0%	22,381	2.61%	273,735	1.94%
Thereafter	582,334	2.79%	100.0%	—	—%	582,334	2.79%
	\$1,557,416	2.65%	85.2%	\$103,088	3.41%	\$1,660,504	2.69%

(1) Excludes \$7.8 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at December 31, 2020.

Apartment Mortgage Maturities by Year



Access to mortgage debt is essential in refinancing maturing debt and financing acquisitions. Management has diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered maturity dates to manage interest rate risk. Management anticipates continued access to mortgage debt for both acquisitions and refinancings. Killam has experienced continued access to mortgage debt throughout the current COVID-19 pandemic. 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 favourable rates. As at December 31, 2020, approximately 85.2% of Killam's apartment mortgages were CMHC-insured (79.9% of total mortgages, as MHC and commercial mortgages are not eligible for CMHC insurance) (December 31, 2019 - 85.2% and 79.6%). The weighted average interest rate on the CMHC-insured mortgages was 2.60% as at December 31, 2020 (December 31, 2019 - 2.77%).

2020 Management's Discussion and Analysis

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

The following tables present the NOI for properties that are available to Killam to refinance at debt maturity in 2021 and 2022:

2021 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	39	\$15,820	\$126,713
MHCs with debt maturing	4	1,061	5,987
	43	\$16,881	\$132,700

2022 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	22	\$14,655	\$139,744
MHCs with debt maturing	9	3,153	22,316
	31	\$17,808	\$162,060

Future Contractual Debt Obligations

As at December 31, 2020, the timing of Killam's future contractual debt obligations is as follows:

Twelve months ending December 31,	Mortgage and Loans Payable	Construction Loans ⁽¹⁾	Credit Facilities ⁽²⁾	Total
2021	\$201,345	\$41,345	\$7,029	\$249,719
2022	211,947	—	—	211,947
2023	257,276	—	—	257,276
2024	256,140	—	—	256,140
2025	245,761	—	—	245,761
Thereafter	495,835	—	—	495,835
	\$1,668,304	\$41,345	\$7,029	\$1,716,678

(1) Construction loans are demand loans that are expected to be replaced with permanent mortgage financing on development completion lease-up.

(2) Killam's \$70 million credit facility was amended and extended in December 2020.

Construction Loans

As at December 31, 2020, Killam had access to five variable rate non-revolving demand construction loans, for the purpose of financing development projects, totaling \$134.7 million. As at December 31, 2020, \$41.3 million was drawn on the construction loans (December 31, 2019 - \$24.9 million). Payments are made monthly on an interest-only basis. The weighted-average contractual interest rate on amounts outstanding at December 31, 2020, was 2.37% (December 31, 2019 - 3.32%). Once construction is complete and rental targets achieved, construction financing will be replaced with permanent mortgage financing.

2020 Management's Discussion and Analysis

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

Credit Facilities

Killam has access to two credit facilities with credit limits of \$110.0 million (\$130.0 million with the accordion feature) and \$10.0 million (December 31, 2019 - \$70.0 million (with \$20.0 million accordion feature) and \$5.0 million) that can be used for acquisition and general business purposes.

The \$110.0 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 \$80.0 million committed revolver as well as an accordion option to increase the \$110.0 million facility by an additional \$20.0 million. The committed revolver was increased by \$40.0 million on December 23, 2020. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2020.

The \$10.0 million demand 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. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2020.

As at December 31, 2020	Maximum Loan Amount⁽¹⁾	Amount Drawn	Letters of Credit	Amount Available
\$110.0 million facility	\$130,000	\$5,000	\$—	\$125,000
\$10.0 million facility	10,000	2,029	1,773	6,198
Total	\$140,000	\$7,029	\$1,773	\$131,198

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

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

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, 2020, no unitholders redeemed units.

During Q1-2020, Killam increased its monthly distribution by 3.0% to \$0.05667, effective for the March 2020 distribution (\$0.68 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.

2020 Management's Discussion and Analysis

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

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

Distribution Reinvestment Plan and Net Distributions Paid

For the years ended December 31,

	2020	2019	% Change
Distributions declared on trust units	\$68,696	\$60,795	13.0%
Distributions declared on exchangeable units	2,784	2,727	2.1%
Distributions declared on awards outstanding under RTU plan	251	283	(11.3)%
Total distributions declared	\$71,731	\$63,805	12.4%
Less:			
Distributions on trust units reinvested	(21,274)	(18,250)	16.6%
Distributions on RTUs reinvested	(251)	(283)	(11.3)%
Net distributions paid	\$50,206	\$45,272	10.9%
Percentage of distributions reinvested	30.0%	29.0%	

Liquidity and Capital Resources

Management manages Killam's 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 currently has access to approximately \$120 million of capital under its credit facilities. Killam's acquisition capacity on its credit facility is over \$250 million.
- (iii) Mortgage refinancings and construction loans are expected to be sufficient to fund value-enhancing capex, principal repayments and developments. Killam has \$141.2 million of mortgage debt scheduled for refinancing through to the end of 2021, expected to lead to upfinancing opportunities of approximately \$50 million.
- (iv) Upcoming mortgage maturities are expected to be renewed through Killam's mortgage program. Killam's mortgage program has remained stable since COVID-19 with renewals proceeding as scheduled.
- (v) Unencumbered assets of approximately \$75.0 million, for which debt could be placed.

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, 2020 was 44.6%.

Killam has financial covenants on its \$110.0 million credit facilities. The covenants require Killam to maintain a leverage limit of not more than 70% of debt to total assets, debt to service coverage of not less than 1.3 times and unitholders' equity of not less than \$900.0 million. As at February 10, 2021, Killam was in compliance with said covenants.

2020 Management's Discussion and Analysis

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

PART VIII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property revenue	\$66,845	\$66,653	\$64,899	\$63,293	\$62,795	\$63,020	\$59,198	\$57,186
NOI	\$41,702	\$43,397	\$41,516	\$38,047	\$39,932	\$41,349	\$37,510	\$33,545
Net income	\$48,563	\$37,465	\$21,509	\$38,503	\$126,805	\$46,839	\$82,789	\$27,092
FFO	\$26,537	\$28,512	\$26,617	\$23,012	\$24,997	\$26,247	\$23,752	\$18,887
FFO per unit - diluted	\$0.25	\$0.27	\$0.26	\$0.22	\$0.25	\$0.27	\$0.25	\$0.21
AFFO per unit - diluted	\$0.21	\$0.23	\$0.22	\$0.18	\$0.21	\$0.23	\$0.20	\$0.16
Weighted average units - diluted (000s)	107,300	105,691	102,620	102,358	99,781	96,044	95,807	91,938

Killam's total property revenue for the three months ended December 31, 2020 was \$66.8 million, a 6.4% increase over the same period in 2019, due to the contributions from recent acquisitions, as well as increased same property revenue. Net income decreased by \$78.2 million in the quarter due to a net \$29.5 million of fair value gains in Q4-2020, compared to net fair value gains of \$115.2 million in Q4-2019.

Q4 Consolidated Results

For the three months ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Property revenue	\$66,845	\$62,795	6.4%	\$58,468	\$57,219	2.2%	\$8,377	\$5,576	50.2%
Property operating expenses									
General operating expenses	12,461	10,056	23.9%	9,842	9,033	9.0%	2,619	1,023	156.0%
Utility and fuel expenses	4,602	5,361	(14.2)%	4,760	4,943	(3.7)%	(158)	418	(137.8)%
Property taxes	8,080	7,446	8.5%	7,002	6,709	4.4%	1,078	737	46.3%
Total operating expenses	\$25,143	\$22,863	10.0%	\$21,604	\$20,685	4.4%	\$3,539	\$2,178	62.5%
NOI	\$41,702	\$39,932	4.4%	\$36,864	\$36,534	0.9%	\$4,838	\$3,398	42.4%
Operating margin %	62.4%	63.6%	(120) bps	63.0%	63.8%	(80) bps	57.8%	60.9%	(310) bps

For the three months ended December 31, 2020, Killam recognized 4.4% NOI growth. Revenue grew 6.4%, offset by total operating expense increases of 10.0% due to inflationary pressures and the increased size of Killam's portfolio. Consolidated same property revenue grew 2.2% for the three months ended December 31, 2020, compared to the same period of 2019. Total same property operating expenses increased by 4.4%, resulting in consolidated same property NOI 0.9% higher in Q4-2020, compared to Q4-2019.

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

Q4 Same Property NOI

For the three months ended December 31,

	Apartments			MHCs			Commercial		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Property revenue	\$52,524	\$51,480	2.0%	\$3,881	\$3,634	6.8%	\$2,063	\$2,105	(2.0)%
Property operating expenses									
General operating expenses	8,504	7,746	9.8%	1,108	988	12.1%	230	299	(23.1)%
Utility and fuel expenses	4,225	4,426	(4.5)%	490	437	12.1%	45	80	(43.8)%
Property taxes	6,364	6,107	4.2%	180	171	5.3%	458	431	6.3%
Total property expenses	\$19,093	\$18,279	4.5%	\$1,778	\$1,596	11.4%	\$733	\$810	(9.5)%
NOI	\$33,431	\$33,201	0.7%	\$2,103	\$2,038	3.2%	\$1,330	\$1,295	2.7%
Operating margin	63.6%	64.5%	(90) bps	54.2%	56.1%	(190) bps	64.5%	61.5%	300 bps

Apartment Same Property

Killam's same property apartment portfolio realized NOI growth of 0.7% for the three months ended December 31, 2020, as compared to the three months ended December 31, 2019, due to a 2.0% increase in revenues and a 4.5% increase in total property operating expenses. The revenue growth was generated from a 3.3% increase in the average rental rate, partially offset by a 100 bps decrease in occupancy for the quarter. Occupancy for the three months ended December 31, 2020, was 96.6%.

General operating expenses increased 9.8% in the fourth quarter of 2020, compared to the same period in 2019, due to higher staffing costs as a result of front-line bonuses, contract services 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 4.5% lower for the quarter ended December 31, 2020, as compared to the quarter ended December 31, 2019. Electricity expenses were 2.3% 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 40.6%, compared to Q4-2019, as a result of lower commodity pricing in Killam's major regions and switching select properties to more efficient heating sources. Natural gas expenses were down 8.5% quarter-over-quarter due to a 16.7% weighted average reduction in natural gas pricing in Killam's Nova Scotia, New Brunswick and Ontario markets. Property taxes increased 4.2% quarter-over-quarter due to higher property tax assessments and rate increases.

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

Q4-2020 Occupancy

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

For the three months ended December 31,	# of Units	Total Occupancy			Same Property Occupancy		
		2020	2019	Change (bps)	2020	2019	Change (bps)
Halifax	5,814	97.3%	98.9%	(160)	97.3%	98.9%	(160)
Ottawa	1,216	95.0%	92.5%	250	94.4%	94.4%	—
London	523	97.1%	98.6%	(150)	97.1%	98.6%	(150)
Cambridge-GTA	818	97.7%	98.5%	(80)	97.8%	98.5%	(70)
Moncton	2,073	97.0%	98.8%	(180)	98.3%	98.8%	(50)
Fredericton	1,529	98.1%	98.4%	(30)	98.2%	98.4%	(20)
Saint John	1,202	96.7%	96.5%	20	96.7%	96.5%	20
St. John's	915	86.7%	91.4%	(470)	86.7%	91.4%	(470)
Charlottetown ⁽²⁾	1,064	90.9%	99.5%	(860)	99.4%	99.4%	—
Calgary	531	92.7%	95.9%	(320)	94.0%	95.8%	(180)
Edmonton	579	94.5%	92.2%	230	95.4%	92.5%	290
Victoria	315	98.6%	N/A	N/A	N/A	N/A	N/A
Other Atlantic	469	94.0%	96.0%	(200)	94.0%	96.0%	(200)
Total Apartments (weighted average)	17,048	96.0%	97.4%	(140)	96.6%	97.6%	(100)

(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 Shorefront, which is undergoing initial lease-up.

Overall apartment occupancy decreased 140 bps to 96.0% in the fourth quarter of 2020, compared to 97.4% for the fourth quarter of 2019. This includes new properties in their initial lease-up. Same property occupancy was 96.6%, a 100 bps decline versus Q4-2019. St. John's same property occupancy is down 470 bps in Q4-2020, compared to Q4-2019. Lower occupancy in the region is due to economic pressure that has been further impacted by COVID-19. The region has seen reduced activity in the offshore oil sector as well as declines in other natural resource sectors, on which the Newfoundland economy is heavily reliant.

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Apartment Same Property NOI by Region

Three months ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Nova Scotia									
Halifax	\$20,791	\$20,312	2.4%	(\$7,081)	(\$6,799)	4.1%	\$13,710	\$13,513	1.5%
	20,791	20,312	2.4%	(7,081)	(6,799)	4.1%	13,710	13,513	1.5%
Ontario									
Ottawa	3,266	3,185	2.5%	(1,102)	(1,055)	4.5%	2,164	2,130	1.6%
London	2,118	2,055	3.1%	(761)	(699)	8.9%	1,357	1,356	0.1%
Cambridge-GTA	3,708	3,618	2.5%	(1,270)	(1,169)	8.6%	2,438	2,449	(0.4)%
	9,092	8,858	2.6%	(3,133)	(2,923)	7.2%	5,959	5,935	0.4%
New Brunswick									
Moncton	4,747	4,618	2.8%	(1,988)	(1,951)	1.9%	2,759	2,667	3.4%
Fredericton	4,562	4,386	4.0%	(1,733)	(1,675)	3.5%	2,829	2,711	4.4%
Saint John	3,173	3,040	4.4%	(1,364)	(1,344)	1.5%	1,809	1,696	6.7%
	12,482	12,044	3.6%	(5,085)	(4,970)	2.3%	7,397	7,074	4.6%
Newfoundland & Labrador									
St. John's	2,429	2,516	(3.5)%	(874)	(786)	11.2%	1,555	1,730	(10.1)%
	2,429	2,516	(3.5)%	(874)	(786)	11.2%	1,555	1,730	(10.1)%
Prince Edward Island									
Charlottetown	2,992	2,952	1.4%	(1,205)	(1,196)	0.8%	1,787	1,756	1.8%
	2,992	2,952	1.4%	(1,205)	(1,196)	0.8%	1,787	1,756	1.8%
Alberta									
Calgary	1,453	1,489	(2.4)%	(515)	(462)	11.5%	938	1,027	(8.7)%
Edmonton	1,965	1,979	(0.7)%	(675)	(659)	2.4%	1,290	1,320	(2.3)%
	3,418	3,468	(1.4)%	(1,190)	(1,121)	6.2%	2,228	2,347	(5.1)%
Other Atlantic locations	1,320	1,330	(0.8)%	(525)	(484)	8.5%	795	846	(6.0)%
	\$52,524	\$51,480	2.0%	(\$19,093)	(\$18,279)	4.5%	\$33,431	\$33,201	0.7%

Halifax revenue grew by 2.4% during the fourth quarter of 2020 due to a 3.8% increase in average rental rates. Property operating expense growth was 4.1%, compared to Q4-2019, due to higher insurance premiums and increased property tax expense, which were partially offset by lower utility costs. Halifax's Q4-2020 same property NOI increased 1.5% from Q4-2019.

Ontario revenue increased by 2.6%, despite decreased occupancy, as a result of a 3.8% increase in rental rates. Total operating expenses increased 7.2%, primarily due to increased property taxes, higher insurance premiums and higher utility costs due to increased water consumption. Overall, Ontario's NOI increased by 0.4% compared to Q4-2019.

Performance in New Brunswick was strong in the fourth quarter, with Saint John, Fredericton and Moncton recording quarter-over-quarter NOI gains of 6.7%, 4.4% and 3.4%, respectively, as compared to the same period in 2019. Rental rates grew by an average of 4.0% across the province, with a slight decrease in overall occupancy. Property operating expenses increased 2.3% compared to Q4-2019 as utility expense savings from energy initiatives and lower rates, partially offset higher staffing costs and insurance premiums. In total, New Brunswick achieved a 4.6% increase in NOI, as compared to Q4-2019.

While Killam's St. John's portfolio saw a slight 1.1% increase in rental rates, occupancy was 470 bps lower over Q4-2019. There continues to be softness in the Newfoundland economy as a result of reduced offshore oil activity, further impacted by COVID-19. Same property revenue decreased 3.5% for Q4-2020. Property operating expenses grew 11.2%, primarily due to higher staffing costs related to an expansion of the property management and leasing teams and higher contract services costs. In aggregate, same property NOI decreased 10.1% compared to Q4-2019.

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The Charlottetown market remains strong, with same property occupancy of 99.4% and rental rate increases of 1.4% in Q4-2020. Property expenses were up a modest 0.8% from the same period in 2019, primarily due to higher staffing costs and insurance premiums offset by lower utility costs. Overall, Charlottetown achieved NOI growth of 1.8% for the three months ended December 31, 2020.

Revenues in Alberta decreased 1.4%, as rental rates were flat quarter-over-quarter and increased incentives were used to combat higher vacancy in downtown properties. Operating costs increased 6.2% compared to the three months ended December 31, 2019, due to increased utility costs and higher staffing costs as the leasing team has expanded. In total, NOI was 5.1% lower in Q4-2020 compared to Q4-2019.

MHC Results

For the three months ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Property revenue	\$4,058	\$3,624	12.0%	\$3,881	\$3,634	6.8%	\$177	\$(10)	N/A
Property operating expenses									
General operating expenses	1,151	995	15.7%	1,108	988	12.1%	43	7	N/A
Utility and fuel expenses	491	437	12.4%	490	437	12.1%	1	—	N/A
Property taxes	198	172	15.1%	180	171	5.3%	18	1	N/A
Total operating expenses	\$1,840	\$1,604	14.7%	\$1,778	\$1,596	11.4%	\$62	\$8	N/A
NOI	\$2,218	\$2,020	9.8%	\$2,103	\$2,038	3.2%	\$115	\$(18)	N/A
Operating margin %	54.7%	55.7%	(100) bps	54.2%	56.1%	(190) bps	\$—	\$—	—%

MHC Same Property

The MHC same property portfolio generated a 3.2% increase in NOI in Q4-2020, compared to Q4-2019. Revenues grew by 6.8% quarter-over-quarter due to a 2.4% rental rate increase at the permanent MHC communities and increased transient revenue from Killam's seasonal resorts. This was a result of increased traffic in October. Total same property operating expenses increased 11.4%, or \$182.0 thousand, due to higher staffing costs, utilities and repairs and maintenance costs.

Commercial Results

For the three months ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Property revenue	\$3,845	\$3,958	(2.9)%	\$2,063	\$2,105	(2.0)%	\$1,782	\$1,853	(3.8)%
Property operating expenses	1,803	1,967	(8.3)%	733	810	(9.5)%	1,070	1,157	(7.5)%
NOI	\$2,042	\$1,991	2.6%	\$1,330	\$1,295	2.7%	\$712	\$696	2.3%

Killam's overall commercial portfolio saw a 2.9% decrease in revenue and an 8.3% decrease in property operating expenses, resulting in a 2.6% increase in NOI compared to Q4-2019. The decline in same property commercial revenue during Q4-2020 was driven by participation in the CECRA program and a slight uptick in vacancy. Expenses decreased in 2020 following internalizing management of Westmount place in early 2020 in addition to reduced utility costs. The same property results in Q4-2020 include Westmount Place located in Waterloo and three commercial properties, one of which is Killam's head office, located in Halifax, NS.

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

Q4 FFO and AFFO

For the three months ended December 31,	2020	2019	% Change
Net income	\$48,563	\$126,805	(61.7)%
Fair value adjustments	(29,514)	(115,158)	(74.4)%
Loss on disposition	—	28	(100.0)%
Non-controlling interest	(3)	26	(111.5)%
Deferred tax expense	6,717	17,278	(61.1)%
Interest expense related to exchangeable units	697	685	1.8%
Net insurance proceeds	—	(4,754)	(100.0)%
Unrealized gain on derivative liability	(6)	(67)	(91.0)%
Internal commercial leasing costs	51	79	(35.4)%
Depreciation on owner-occupied building	24	39	(38.5)%
Change in principal related to lease liabilities	8	36	(77.8)%
FFO	\$26,537	\$24,997	6.2%
FFO per unit - diluted	\$0.25	\$0.25	—%
AFFO per unit - diluted	\$0.21	\$0.21	—%
AFFO payout ratio - diluted	83%	80%	300 bps
Weighted average number of units - basic (000s)	107,139	99,588	7.6%
Weighted average number of units - diluted (000s)	107,300	99,781	7.5%

Killam earned FFO of \$26.5 million, or \$0.25 per unit (diluted), for the three months ended December 31, 2020, compared to \$25.0 million, or \$0.25 per unit (diluted), for the three months ended December 31, 2019. FFO growth is primarily attributable to contributions from acquisitions and completed developments (\$0.8 million), same property NOI growth (\$0.4 million), and a reduction in interest expenses (\$0.3 million). These increases were offset by a 7.5% increase in the weighted average number of units outstanding from an equity raise completed in July 2020.

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

PART IX

Selected Consolidated Financial Information

For the years ended December 31,	2020	2019	2018
Property revenue	\$261,690	\$242,164	\$215,959
Net income	\$146,040	\$283,525	\$175,171
FFO	\$104,678	\$93,884	\$81,808
FFO per unit - diluted	\$1.00	\$0.98	\$0.94
Investment properties	\$3,741,918	\$3,320,604	\$2,799,693
Total assets	\$3,776,560	\$3,380,100	\$2,824,406
Total liabilities	\$2,008,302	\$1,777,733	\$1,655,456
Distribution per unit	\$0.68	\$0.66	\$0.64

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, 2020, \$56.1 million of Killam's debt had variable interest rates, including four construction loans totaling \$41.3 million, amounts drawn on credit facilities of \$7.0 million and one demand loan totaling \$7.8 million. These loans and facilities have interest rates of prime plus 0.5% - 1.25% (December 31, 2019 - prime plus 0.55% - 1.0%) 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.

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 0.3% of revenues, and none of Killam's tenants account for more than 3% of tenant receivables.

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Pandemic Risk and Economic Downturn

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The transmission of COVID-19 and efforts to contain its spread have resulted in international, national and local border closings, significant disruptions to business operations, financial markets, regional economies and the world economy and other changes to services as well as considerable general concern and uncertainty. Such disruptions could adversely affect the ability of Killam's tenants to pay rent and increase Killam's credit risk. In addition, the COVID-19 pandemic and other outbreaks could materially interrupt Killam's supply chain and service providers, which could have material adverse effects on Killam's ability to maintain and service its properties. There can be no assurance that a disruption in financial markets, regional economies and the world economy and the government measures to contain COVID-19 will not negatively affect the financial performance or fair values of Killam's investment properties in a material manner.

The Trust's response to the COVID-19 pandemic is guided by local public health authorities and governments. Killam continues to closely monitor business operations and may take further actions that respond to directives of governments and public health authorities or that are in the best interests of employees, tenants, suppliers or other stakeholders, as necessary. These changes and any additional changes in operations in response to COVID-19 could materially impact the business operations and financial results of Killam. The COVID-19 situation continues to change rapidly and uncertainties remain with respect to the severity and duration of a resurgence in COVID-19 or its variants, the availability, distribution rates and efficacy of COVID-19 vaccines, the speed and extent to which normal economic conditions are able to resume and the effectiveness of government and central bank responses. There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 may have, and, as a result, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Trust for future periods.

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.

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.

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.

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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.

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 Income Tax Act ("Tax Act"). The payment of Part XII.2 tax by Killam may have adverse income tax consequences for certain of Killam's unitholders, including non-resident persons and trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit-sharing plans, registered retirement income funds, tax-free savings accounts and registered education savings plans ("designated savings plans"), which acquired an interest in Killam directly or indirectly from another Killam unitholder. If Killam ceases to qualify as a "mutual fund trust" 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 its 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, registered education savings plans, registered disability savings plans or tax-free savings accounts.

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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 rules in the Tax Act 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

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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, 2020 were \$0.3 million (December 31, 2019 - \$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 its 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. Climate change-related risks are considered by the Trust as part of its ongoing risk management processes. The materiality of such risks varies among the business operations of Killam and the jurisdictions in which such operations are conducted. Despite the potential uncertainties and longer time horizon associated with any such risks, the Trust considers the impacts of climate change-related risks over the short-, medium- and long-terms.

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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.

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(H) of 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(N) of the consolidated financial statements. Critical judgments inherent in these policies related to applying the criteria set out in IFRS 9 and IAS 32 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 of 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.

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IPUC and land held for development 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.

(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 of 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, Amendments to classification of liabilities as current or non-current

In January 2020, the IASB issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify the definition of a right to defer settlement and specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments must be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. Killam is in the process of assessing the impact the amendments may have on future financial statements and plans to adopt the new standard retrospectively on the required effective date.

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, 2020, 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, 2020, 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 in 2013 and, based on that assessment, determined that the ICFR were designed and operating effectively as at December 31, 2020. Killam did not make any changes to the design of ICFR in 2020 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

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Related Party Transactions

Killam has construction management agreements with companies owned by a Trustee of Killam. The agreements include a market rate construction management fee of 2.5% and 1.5% development management fee on hard construction costs for the Shorefront development and a 4.0% construction management fee for the Harley Street development, totalling \$0.3 million (December 31, 2019 - \$0.2 million). These fees are to be paid over the construction period. In addition, these companies supply direct construction services or contract arm's-length services. For the year ended December 31, 2020, these companies were paid \$3.1 million (December 31, 2019 - \$2.1 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 held by 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 rent of approximately \$13.00 per square foot net, 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. During 2020, three additional employees were promoted to Vice President and included in the disclosure below. The total remuneration is as follows:

For the years ended December 31,	2020	2019
Salaries, board compensation and incentives	\$5,138	\$4,674
Deferred unit-based compensation	1,727	1,822
Total	\$6,865	\$6,496

Subsequent Events

On January 15, 2021, Killam announced a distribution of \$0.05667 per unit, payable on February 15, 2021, to unitholders of record on December 31, 2020.

On January 21, 2021, Killam acquired the remaining 90% interest in the 233-unit Nolan Hill property in Calgary, AB, for \$49.5 million.

On January 29, 2021, Killam acquired development land in Charlottetown, PE, for \$3.4 million.

On January 29, 2021, Killam acquired a property for future development in Halifax, NS, for \$3.0 million.

On February 1, 2021, Killam acquired a 23-unit apartment building in Moncton, NB, for \$5.6 million.

On February 1, 2021, Killam acquired a property for future development in Stratford, PE, for \$3.8 million.