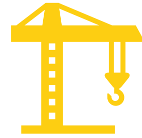

KILLAM PROPERTIES INC
ANNUAL REPORT | 2011

Who We Are

Killam Properties Inc. is a growing real estate company with $1.3 billion invested in multi-family residential properties, including apartments in Atlantic Canada's six major urban centres and Ontario, and manufactured home communities (MHCs) across Canada.

Killam's portfolio includes 10,543 apartment units and 9,441 MHC sites. Management is committed to maximizing the returns from this established portfolio.

Since its first acquisition in 2002, Killam has acquired a portfolio of 198 quality assets through the consolidation of rental properties in its core markets. Acquisitions continued in 2011 with the purchase of $106 million in real estate assets.

In 2010 Killam began its development program focused on the construction of high-quality apartments in its core markets. The first building was completed in 2011 and four other projects are currently underway.

Our Mission

To have a team of caring staff deliver clean, safe, quality housing to tenants who are proud to call our properties home, and to be a fiscally responsible company that is recognized as a community leader.

Our Strategic Goals

Grow Accretively and Increase the Quality of our Portfolio

Enhance Tenant Experiences

Pursue Operational Excellence

Develop Employee Commitment

Be a Good Corporate Citizen

Killam marked its tenth year of operations in 2011. The Company's first acquisition in February 2002 consisted of three apartment buildings totalling 149 units. Killam's real estate portfolio has grown from this modest beginning to 19,984 rental units at the end of 2011. With a strong foundation built over the last ten years, Killam looks forward to continued growth in the future.

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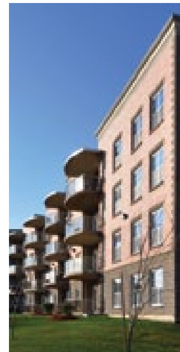
2011 Highlights

4.3% Increase in FFO Per Share

Generated a 4.3% increase in funds from operations (FFO) per share due primarily to increased earnings from the existing portfolio and contributions from acquisitions.

Growth through Acquisitions

Completed $106 million in acquisitions, with a focus on new construction. Fifteen properties were acquired, including buildings in Halifax, St. John's, Fredericton, Moncton and London.



Development Activity

The first apartment building was completed and construction began on four new developments, including high-quality buildings in Fredericton, Halifax, St. John's, and Charlottetown.

Growth in Earnings from Same Store Properties

A 2.6% increase in same store property revenue offset a 6.2% increase in total property expenses, resulting in 0.3% growth in same store net operating income.

Increased Dividend

Increased the annual dividend by 3.6%, from $0.56 per share to $0.58 per share.

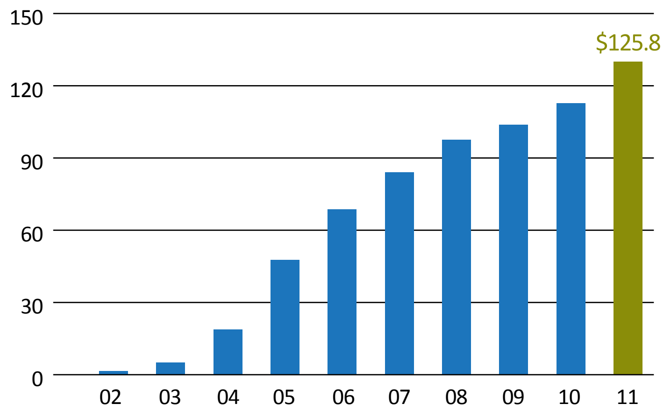
Total Shareholder Return of 16%

Killam's stock value increased by 10.7% in 2011, driving a total return for Shareholders of 16.2%, following a 25.1% return in 2010.

Killam by the Numbers

Annual Growth in Property Revenue

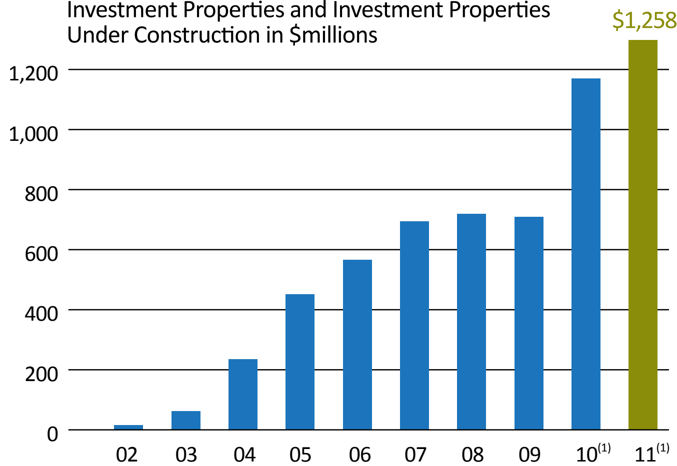
Property Revenue in $millions



Property revenue has increased annually due to Killam's growing portfolio and the ability to increase rents. In 2011, Killam completed $106 million of acquisitions, representing $9 million in annual revenue. Rents increased an average of 2.6% in 2011.

Annual Increase in Real Estate Assets

Investment Properties and Investment Properties Under Construction in $millions

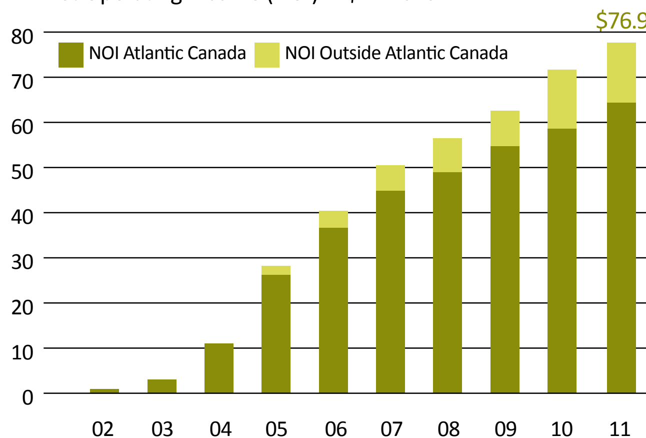


(1) Fair market value of investment properties and investment properties under construction, as reported under IFRS. Values for previous years reflect the gross book value of assets as recorded under GAAP.

Killam's real estate portfolio was valued at $1.3 billion at December 31, 2011. The portfolio has increased every year since 2002 due primarily to the Company's acquisition program. Following the implementation of International Financial Reporting Standards (IFRS) in 2011, Killam's investment properties are now measured at fair market value. Killam recorded $52 million in fair value gains in 2011.

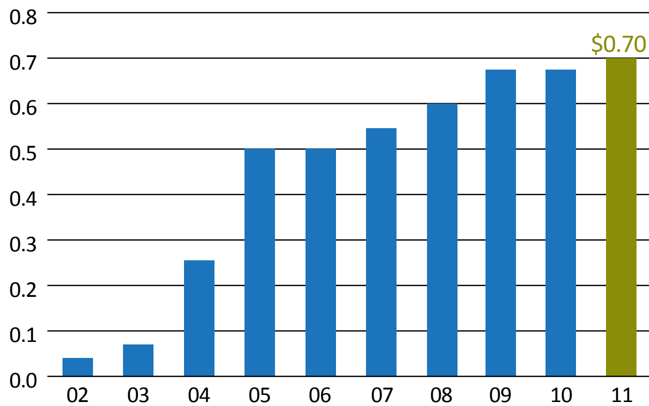
Increasing Geographic Diversification

Net Operating Income (NOI) in $millions



Killam has consistently increased its investment outside of Atlantic Canada since it acquired its first MHC in Ontario in 2004. During 2010 and 2011, Killam invested $88 million to enter the Ontario apartment market with the purchase of four new buildings in London and Cambridge. Management expects to continue to invest in Ontario with a focus on new properties. Over time, Killam aims to generate 50% of its NOI outside of Atlantic Canada.

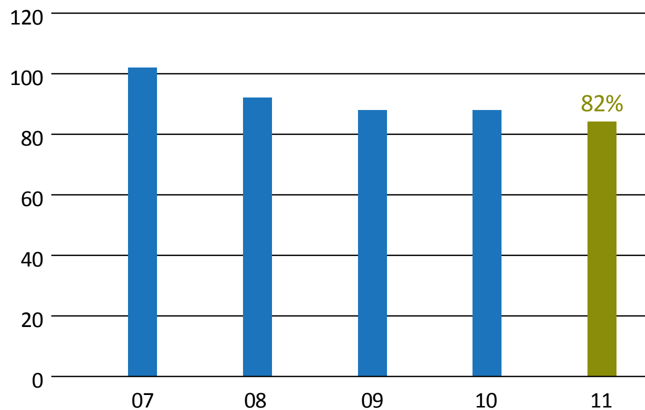
Growing FFO [(1)]
FFO Per Share in $



(1) FFO from 2002 to 2010 has been adjusted to reflect Killam's definition of FFO implemented with the adoption of IFRS in 2011.

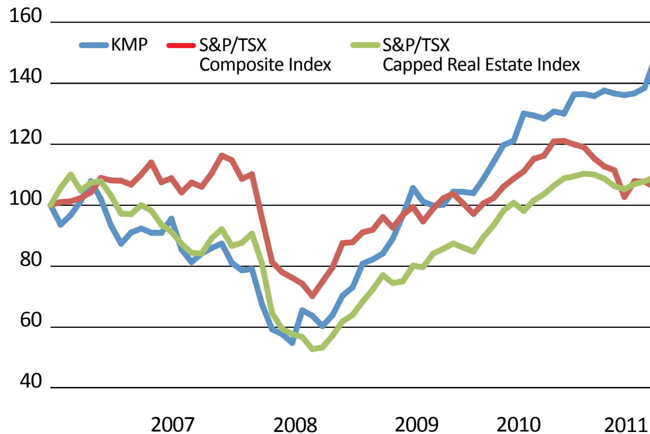
Killam's ability to increase earnings from its existing portfolio and source accretive acquisitions has contributed to escalating FFO per share most years, including 4.3% growth in 2011.

Improving Payout Ratio
Dividends as a % of FFO



Killam's FFO payout ratio, defined as dividends as a percentage of FFO, has decreased to 82% since the dividend was introduced in 2007. Killam's Adjusted Funds from Operations (AFFO) payout ratio, which takes into consideration capital requirements to maintain the portfolio, has also decreased, and was 99% in 2011. These payout ratios highlight the stability of Killam's monthly dividend. In 2011 the Board of Directors approved a 3.6% dividend increase.

Strong Relative Performance
Total Cumulative Return Comparisons in $



Killam has outperformed both the S&P/TSX Composite Index and the S&P/TSX Capped Real Estate Index during the last five years. The stability of the multi-family rental business, Killam's growth, increased demand for real estate, investors' appetite for yield, and Killam's monthly dividend are all factors contributing to Killam's outperformance.

Financial and Operating Highlights

(in thousands, except per share amounts)

AS AT AND FOR THE YEARS ENDED	**2011**	2010	Change
Operations			
Property revenue	**$125,761**	$114,853	9.5%
Income from property operations	**$76,024**	$70,460	7.9%
Funds from operations (FFO)	**$31,757**	$29,036	9.4%
FFO per share (basic)	**$0.698**	$0.669	4.3%
Dividends declared per share[1]	**$0.57**	$0.56	1.8%
FFO payout ratio	**81.7%**	83.7%	↓200 bps
Financial Position			
Total assets	**$1,329,531**	$1,116,333	19.1%
Total liabilities	**$816,988**	$689,292	18.5%
Total equity	**$512,543**	$427,041	20.0%
Shares outstanding (weighted average)	**45,523**	43,393	4.9%
Shares outstanding (at Dec 31)	**49,291**	44,972	9.6%
Gross debt as a percent of total assets	**56.2%**	57.0%	↓80 bps
Interest coverage ratio	**1.98**	2.01	(0.1%)
Portfolio Information			
Apartment units	**10,543**	9,726	8.4%
MHC sites	**9,441**	9,290	1.6%
Total units	**19,984**	19,016	5.1%

(1) Killam increased its annualized dividend from $0.56 per share to $0.58 per share in 2011. The increase became effective for the June 2011 dividend.

2011 Performance Summary

Objective	Strategy	Outcome
Consolidation of the Multi-family Residential Real Estate Market	• Acquire between $100 million and $150 million in acquisitions.	• $106 million in acquisitions, including $97 million in apartments and $2 million in MHCs. Killam also purchased three parcels of land for apartment development projects and acquired an ownership position in its head office building in Halifax.
Increase Investment in New Properties	• Acquire new properties.	• 10 of the 15 apartment properties acquired in 2011 were built in the last ten years, including three buildings built in 2011 and still in their initial lease-up phase.
	• Complete first apartment development.	• The first apartment development, Charlotte Court in Charlottetown, was completed in July 2011, on time and on budget. Construction also commenced on four new development projects.
Geographic Diversification	• Long-term goal is to have 50% of NOI generated within Atlantic Canada and 50% outside Atlantic Canada.	• In 2011, 16.4% of Killam's NOI was earned outside of Atlantic Canada, up from 15.4% in 2010.
	• Killam has identified key markets in Ontario for apartment acquisitions.	• Acquired a $33 million, newly-constructed building in London, Killam's fourth apartment acquisition in Ontario. Killam owns a 25% interest in the new asset. The competitive acquisition market in Ontario impacted the timing and number of acquisitions completed in Ontario in 2011.
Growth in Same Store Net Operating Income	• Grow the net operating income of the existing portfolio by 2% to 4%.	• Net operating income from the existing portfolio increased by 0.3%. Higher operating costs, including a 19% increase in the cost of natural gas and heating oil, offset the impact of a 2.6% increase in revenue.
Maximize Value of Excess Land	• Complete 40 to 50 home sales on expanded MHC sites.	• Completed 45 home sales.
	• Begin apartment developments adjacent to existing apartments.	• Development projects began on two parcels of excess land in the apartment portfolio. The ability to utilize the excess land augments the expected return on the two developments.

Letter from Philip Fraser

$1.3 Billion in Real Estate Assets

4.3% Growth in FFO Per Share

Dear fellow shareholders,

I am pleased to review Killam's performance and results for 2011, the Company's tenth year of operations, and to discuss our plans going forward. Killam generated funds from operations of $0.70 per share, a 4.3% increase from 2010, thanks primarily to the impact of acquisitions and the performance of our existing portfolio.

Killam's stock price was up 10.7% in 2011, contributing to a total return to shareholders of 16.2%. This compares to a total return from the S&P/TSX Composite Index of -8.7%, and a total return for the S&P/TSX Capped Real Estate Index of 8.3% in 2011. Killam has significantly outperformed these indexes over the last five years, with a cumulative total five year return of 53.1%, compared to 6.7% from the S&P/TSX Composite Index and 10.2% from the S&P/TSX Capped Real Estate Index in the same period. This impressive return supports the strength of Killam as a long-term investment.

Canadian real estate assets have shown strength and resilience throughout the last five years, and multi-family real estate assets have stood out as one of the most stable asset classes. As we remain in a low interest rate environment, real estate assets, and real estate investments like Killam, offer strong risk-adjusted returns to investors. Killam's dividend, which was increased by 3.6% in 2011, provides shareholders with a monthly cash flow. In addition, the common shares offer the potential for share price appreciation. We plan to maximize Killam's future earnings, and the value of the Company for our shareholders, by driving superior returns from our 20,000 unit portfolio, acquiring accretive assets and building modern, high-quality apartments.

Maximizing the Value of Our Properties

Same store revenue and NOI growth are two of our key performance metrics. Our targets in 2011 were to increase rents an average of 3% and generate between 2% and 4% NOI growth from our same store assets. We ended the year below these targets, but made progress to improve the performance in 2012.

Averages rents increased by 2.6% year-over-year. The effect of our rental increase program gained ground in the second half of 2011. Due to the advance notice required for increases, and the varied anniversary dates for implementing the increases, we did not realize the full extent of this program by December 2011. We expect to continue to see the benefit of these increases in 2012.

The most significant challenge in meeting our same store NOI growth targets in 2011 was managing operating expenses, which increased by 6.2% in the year. The majority of expenses that we control were in line with our budgets, namely repairs and maintenance, contract services and labour. It was the increase in many of the expenses that are government levied or impacted by world-wide commodity prices that resulted in lower than expected NOI growth. Leading the increase in expenses last year were heating oil costs, up 31%; property taxes, up 5%; and water costs, up 5%.

I am pleased to report that during the second half of 2011 and into 2012, we invested $1.3 million to convert the heating systems of approximately 1,000 apartment units in Halifax from oil to natural gas. With current natural gas costs in Nova Scotia being a third of the cost of oil, we expect a three-year payback on the investment, and have already started to see the positive impact. Natural gas is still relatively new to Atlantic Canada, and the distribution system is still being expanded in Halifax. As gas becomes available in more areas in Halifax, we expect to invest in additional gas conversions.

Focusing on New Acquisitions

We achieved our goal of completing between $100 and $150 million in acquisitions during 2011. Our acquisition program was focused on apartments, adding 15 new properties to our portfolio. In addition, we added one new MHC, three parcels of land for development opportunities and an ownership position in our head office property. The buildings purchased were weighted toward new construction, with 69% of the units acquired built in the last ten years, including three that were completed in 2011.

In last year's letter I noted that we expected 2011 to include a balance of acquisitions between our core markets in Atlantic Canada and purchases in specific markets in Ontario. In actuality, 92% of acquisitions completed in 2011 were in Atlantic Canada. This was the result of attractive large portfolios of assets available for sale in Fredericton and Moncton and a very competitive and expensive acquisition market in Ontario.

We analyzed numerous acquisition opportunities in Ontario last year. The challenge has been to source properties that deliver the relative value we require when compared with competing properties in Atlantic Canada. The quality of multi-family returns plus low interest rates has pushed values higher and cap rates lower. We are working hard to source acquisition opportunities in Ontario, but will remain focused on our key measure of success: growing funds from operations per share.

Developments Will Differentiate Killam

Development was an important focus in 2011. We completed our first apartment development and commenced construction of four other projects. We see development as a real growth opportunity at Killam and a strong complement to our acquisition program. Developments allow us to increase the number of new, modern properties in our portfolio. We are investing in making our buildings among the highest quality in each market by being highly efficient, using high-quality finishes and expanding the amount of amenity space. We are catering to tenants looking for condo-quality buildings, but who want the services and flexibility that renting provides.

We are confident in the long-term benefit of developing properties ourselves and in the acquisition of newer assets. These properties will meet the demands of renters with modern suites and spacious common areas. Energy efficient construction and technology are expected to result in efficient buildings generating higher margins. In addition, these new assets will not have the deferred maintenance issues that many older buildings in Canada now face. We believe that over time, our strategy of investing in new assets will distinguish Killam as having one of the highest quality multi-family residential portfolios in Canada.

$25 Billion Federal Shipbuilding Contract

We are optimistic about the future of Killam's core markets, with Halifax expected to outperform most other rental markets in Canada over the next decade. Killam staff cheered, along with the rest of Halifax, on October 19, 2011, when Irving Shipbuilding Inc. was awarded the $25 billion federal contract for the construction of Canada's next generation of naval vessels. The contract, spanning 25 years, is expected to create up to 11,500 local jobs at its peak and increase Halifax's economy and population base. The impact in employment is expected to come not only from shipbuilding jobs, but from sectors and businesses across the city as more people move to the region.

With 42% of Killam's apartment units in Halifax, we expect to benefit directly from increased demand for housing. Our assets are centrally located and include a range of rental rates, with a mix of high-end and more affordable units, which will meet increased demand from a varied demographic. Demand is expected to be moderate in 2012 and start to pick up in 2013 and beyond. We do not expect that the growth will result in a spike in rents all at once, but that increased demand over the next ten years will support rental growth rates higher than the 2% to 3% we have historically seen in Halifax.

Capital Raised to Fund Growth

We were active in the capital markets during 2011, raising $86 million in convertible debentures and equity, primarily to fund acquisitions and development activities. Due to the competitive acquisition market, the funds were deployed more slowly than expected, leaving a cash balance of $43 million at year-end. This cash, along with positive cash flow from placing mortgages on unencumbered assets in 2012, is expected to fund much of Killam's growth in 2012.

Looking Forward

We have started 2012 with a plan for each of our growth areas: maximizing earnings from our existing portfolio, acquisitions and development.

We will remain focused on maximizing the earnings of our existing portfolio by increasing revenue and managing expenses. As the foundation for our future growth, we will continue to invest in our properties, including investment in energy efficient initiatives such as expanding our natural gas conversions in Halifax to reduce our reliance on heating oil.

We will continue to grow our portfolio through acquisitions at levels similar to 2010 and 2011, of approximately $100 million. We expect to buy in Atlantic Canada and Ontario, with a preference for recently constructed buildings.

On the development side, we expect to finish 2012 with four new buildings nearing completion. We anticipate at least one other new development to start in 2012, and expect progress on the planning and approval for additional developments.

These priorities will increase the quality of Killam's portfolio, allow us to remain competitive in the long-term and lead to increased profitability. I will keep you updated on the progress of these priorities during the year.

I would like to thank Killam employees, management and board of directors for their contributions during the year, and thank you, our shareholders, for your support and interest in Killam. I invite you to attend the Company's annual meeting, either in person or via webcast, on May 9, 2012, in Halifax.

Yours truly,

Philip Fraser
President and CEO

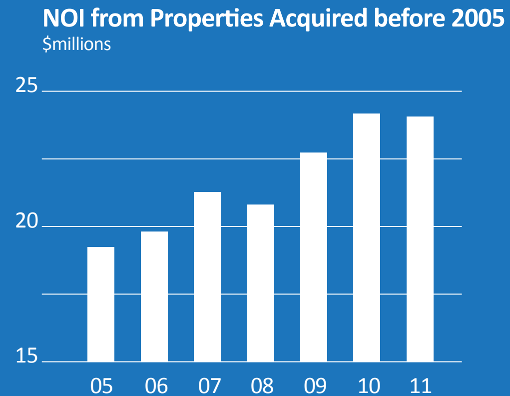
We're increasing the value of our properties by improving their performance every year.

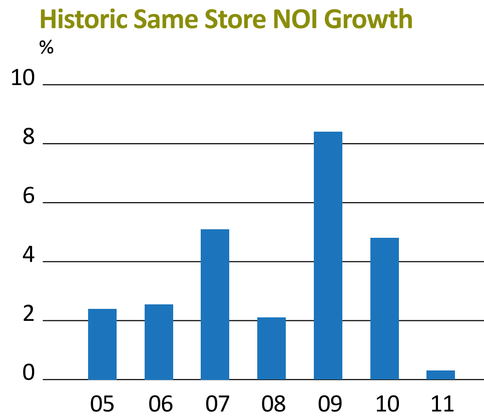
One of our key strategies is to grow the NOI produced by our same store properties, those properties we've owned for more than two years. We do this by maximizing occupancy levels, increasing rents, managing expenses and investing capital in the properties. We've successfully grown same store NOI every year since Killam's inception.

Growth in 2011 was 0.3%, below the historic annual average of 3.7%, due to a 6.4% increase in expenses. Looking forward, we believe that annual NOI growth of between 2% and 4% is attainable.

Increasing the Value of Our Properties

Highlighting our ability to increase the value of our properties is the change in net operating income (NOI) generated from the same group of properties over time. The adjacent graph shows the NOI growth from a group of 57 properties, all acquired before 2005. Over a seven-year period, Killam has grown the NOI generated from these properties from $18.7 million in 2005 to $23.0 million in 2011, a compound annual growth rate of 3.5%.





Annual Increases in NOI

Killam's same store NOI has grown an average of 3.7% per year over the last seven years. Apartment NOI growth has averaged 3.6% and MHC NOI growth has averaged 4.1%.

NOI Growth Influenced by Heating Costs

Killam's exposure to volatile heating oil and natural gas costs contributes to variability in the annual NOI growth of its properties. Same store utility and fuel expenses increased by 13% in 2008, and decreased by 8% in 2009; the effect on same store NOI growth is reflected in the chart above. Utility and fuel expenses increased by 8% in 2011, impacting 2011 same store NOI growth.

Growth through acquisitions is a significant part of the Killam story.

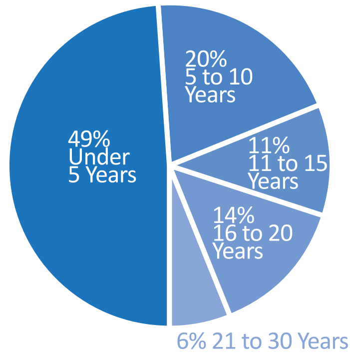
Over the last ten years we've accumulated $1.3 billion of multi-family residential real estate assets. Our acquisition program has evolved since our first properties were purchased in 2002, with an expanded geographic footprint and increased investment in newer, high-quality properties.

In 2011 Killam completed $106 million in acquisitions, representing a 13% increase in the value of its real estate holdings at December 31, 2010.

We expect to continue to acquire properties in 2012, targeting total acquisition activity of approximately $100 million.

Buying Newer Assets

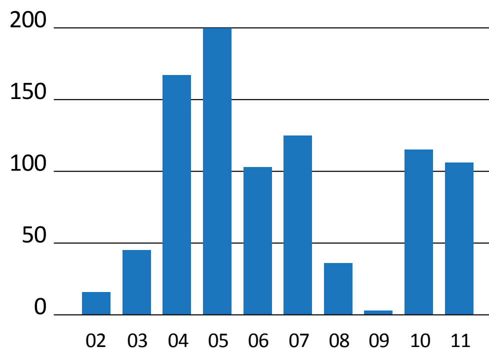
Age of Apartments Acquired in 2011

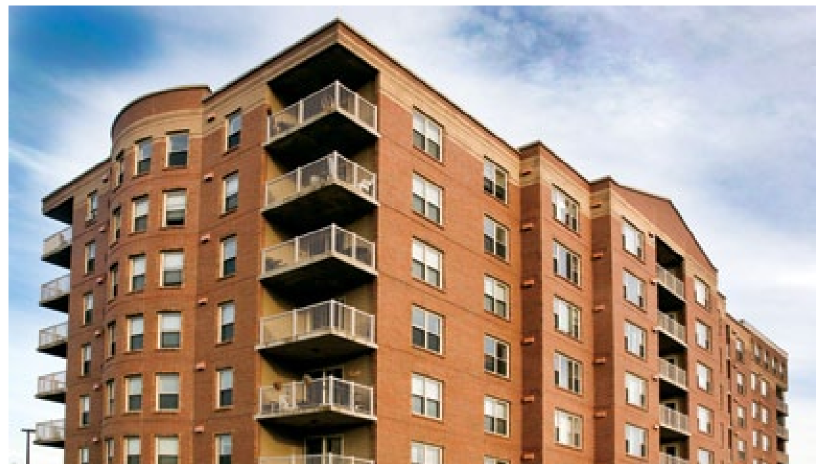


Consistent Focus on Acquisitions

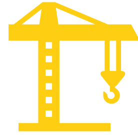
Value of Acquisitions Completed by Year

$millions





We're preparing for the future by investing in new properties today.



We're preparing to meet the demand of more people looking for housing alternatives as they head toward retirement.

We're building and buying new, high-quality properties – buildings designed for people looking for the convenience and flexibility of renting, but with the space, quality and amenities typically associated with ownership.

We believe that focusing on new developments today will differentiate Killam tomorrow.

More Amenities

Our buildings are designed with extensive amenity spaces, including spacious foyers, modern exercise facilities, social rooms, entertainment spaces and common terraces.

First Development Completed

We completed Phase I of Charlotte Court in Charlottetown in July 2011. The 49-unit building came in on time and on budget. Phase II, a 47-unit building, is underway and expected to be completed in early 2013.

Development Represents 4% of Our Balance Sheet

Our four development projects currently underway represent an investment of $58 million, equal to 4% of the assets on our balance sheet. We expect to maintain a similar allocation to developments in the future.

Thinking Green

We're building energy efficient properties, and incorporating technology that meets the highest efficiency standards. We're investing in efficiency now, for long-term cost savings, and because it's the right thing to do.

Shipbuilding Expected to Create Growth in Killam's Largest Market

On October 19, 2011, Halifax's Irving Shipbuilding Inc. was awarded the federal government's $25 billion contract to build Canada's future combat fleet. The 25-year contract is expected to bring employment, population and economic growth to Halifax. As Halifax's largest residential landlord, Killam expects to benefit from this growth.

Halifax is Killam's most significant market. During 2011, 38% of Killam's revenue was attributable to its Halifax properties. With 4,410 rental units in the city, we have an 11% market share. We expect to continue to buy and build in Halifax.

The shipbuilding contract is expected to create 11,500 local jobs for the economy during its peak year in 2020, and 8,500 jobs during an average year. Job growth is expected not only from the shipbuilding itself, but also from suppliers and service providers who will support the contract and the increased population base.

Demand for housing will increase with the population growth. Research from Canada Mortgage and Housing Corporation (CMHC) suggests that for every 100 jobs, 50 new housing units are required. Killam expects to benefit from this increased demand with well-located assets at a variety of price points. Increased demand is expected to raise the price of housing in the city, including the price of rental units. We expect to see higher annual rental increases than the average of 2% to 3% that Halifax has experienced over the last decade.

Making a Difference
2011 Highlights

Thinking Green

- Completed 15 natural gas conversions in Nova Scotia, reducing Killam's carbon footprint and its reliance on heating oil.
- Completed solar panel installations in Halifax, including one of the largest solar arrays in Nova Scotia, a 100 panel installation at Parker Street Apartments.
- Launched a green campaign, encouraging all tenants to think about their energy and water consumption.
- Committed to environmentally friendly investments in Killam's new developments, building to LEED certification standards.

Killam's Board of Directors are Committed to Killam's Communities

- Killam's board of directors gives back to Killam's communities. During each of the last two years, members of the Board have come together to support a designated charity in the region. During 2011, the Board members personally donated over $100,000 to the YMCA of Greater Halifax/ Dartmouth's Capital Campaign "A Place to Go, A Place to Grow", a campaign to raise funds to update a 20-year old gym in Halifax's North End. In recognition of the commitment, the facility will be renamed the Killam Properties' Community Gym.

Community Matters

- Provided furnished suites to families as they supported loved ones through medical treatments. Killam donates suites annually to hospitals in its core markets.
- Through an on-going partnership with Capital Health in Halifax, offered subsidized rent for 45 apartment units, providing quality, affordable accommodations for people living with mental illness.
- Provided financial support to the Red Cross, supporting their ability to respond when emergencies impact communities.
- Provided all Killam staff with a paid day to volunteer at a charitable organization in their community.

We Care About Our Tenants

- Invested in playgrounds and initiated community events, enhancing the community aspect of Killam's MHCs.
- Introduced Home Care to buildings with a majority of seniors, providing tenants with access to personal care services in their suites.
- Provided temporary rent relief for tenants who were undergoing financial hardship through Killam's tenant assistance program.
- Expanded amenities throughout the apartment portfolio, including adding common rooms, bike storage and racks and a community garden.

Property Portfolio | Apartments

NOVA SCOTIA	Units	Year Built	Average Rent	
			Dec-11	Dec-10
HALIFAX				
1 Oak Street	146	1969	$838	$817
10 - 214 Harlington Crescent	60	1978	765	754
19 Plateau Crescent	81	1974	754	731
159 Radcliffe Drive	25	1995	952	932
175 - 211 Harlington Crescent	60	1978	768	750
21 Parkland Drive	98	2002	1,070	1,040
26 Alton Drive & 36 Kelly Street	80	1969	665	651
294 - 300 Main Avenue	58	1969	771	744
3 Veronica Drive	70	1983	831	817
31 Carrington Place	38	1998	1,191	1,152
3565 Connaught Avenue	19	1958	771	756
50 Barkton Lane	63	1991	814	791
5206 Tobin Street	47	1993	1,040	1,002
57 Westgrove Place	41	1969	743	727
59 Glenforest/21 Plateau	153	1978	735	715
6 Jamieson Street	24	1965	726	706
6087 South Street	9	1999	1,366	1,337
6101 South Street	30	2002	1,479	1,449
67 - 141 Harlington Crescent	60	1978	743	732
75 Knightsridge Drive	41	1986	839	822
85 - 127 Harlington Crescent	60	1978	758	744
9 Bruce Street	60	1974	604	571
9 Sybyl Court	22	1975	683	669
95 Knightsridge Drive	46	1984	913	894
Bedford Apartments	53	1987	713	690
Dillman Place	60	1970s	708	685
Garden Park Apartments	116	1980	845	845
Glenforest Apartments	80	1969	849	827
Glenbourne Gate	67	2000	928	891
Glenmoir Terrace	28	1972	706	683
Hillcrest Apartments	50	1980	773	754
Kent Street Properties	139	1950's	843	824
Lakefront Apartments	396	1954	697	684
Linden Lea & Pleasant Street	28	1950s	651	641
Maplehurst Apartments	268	1965	765	746
Maplehurst Houses	15	1965	981	964
Parker Street Apartments	239	1960/75	719	699
Parkridge Place	76	2002	970	940
Paxton Place	67	2000	929	892
Quinpool Court	198	1978	1,000	971
Quinpool Towers	233	1978	1,023	1,001
Shaunslieve Apartments	154	1978	797	790
Sheradon Place	82	1979	864	831
Spring Garden Terrace	201	1964	1,099	1,068
The James	108	2008	1,297	1,285
The Linden	81	2011	1,493	n/a
Victoria Gardens	198	1954	722	703
Waterview Place	82	1971	768	745
Halifax Total	**4,410**			

NOVA SCOTIA	Units	Year Built	Average Rent	
			Dec-11	Dec-10
SYDNEY				
552 Kings Road	17	1974	$671	$623
Cabot House	88	1974	922	855
Moxham Court	51	1998	964	912
Sydney Total	**156**			
Nova Scotia Total	**4,566**			

NEW BRUNSWICK	Units	Year Built	Average Rent	
			Dec-11	Dec-10
FREDERICTON				
110 McKnight Street	45	1996	$763	n/a
116 & 126 Wilsey Avenue	48	1975	728	$701
120 McKnight Street	45	1998	830	n/a
127 & 157 Biggs Street	46	1985/92	769	754
25 McKnight Street	64	2001	927	n/a
200 Reynolds Street	52	2001	965	n/a
260 Wetmore Road	38	1978	747	722
300 Reynolds Street	52	2006	970	n/a
305 Reynolds Street	52	2010	1,004	n/a
50,60 Greenfield/190 Parkside	72	1977/86	691	656
75 Greenfields Drive	44	1980	674	626
969 Regent Street	62	1997/01	866	851
Carrington House	41	2002	906	886
Elroy Apartments	194	1973	793	786
Forest Hills	151	1968/79	859	844
Princess Place	141	1968/79	749	723
Southgate Apartments	47	2003	933	907
Venus Apartments	54	1965	873	852
Westwood Apartments	45	1975	667	626
Fredericton Total	**1,293**			
MONCTON				
100 Archibald Street	60	2003	$782	$767
101 Archibald Street	60	1993	737	724
108-118 Archibald Street	2	n/a	663	663
115 Kedgewick Drive	25	2009	847	n/a
133 Kedgewick Drive	23	2010	863	n/a
135 Gould Street	69	2011	960	n/a
155 Canaan Drive	48	2008	994	n/a
1111 Main Street	16	1957	1,476	1,476
276 - 350 Gauvin Road	84	1991/96	690	682
303 Normandie Street	70	1994	783	765
316 Acadie Avenue	48	1996	721	693
360 Acadie Avenue	60	1998	699	688
364 - 368 Gauvin Road	80	1995	729	709
Belmar Plaza	50	2005	882	880
Buckingham Place	55	1998	806	782
Cambridge Court	45	1994	855	828
Cambridge Place	63	1995	1,025	998
Cameron Street	81	1966/67	653	632
Eagles Ridge Estates	59	1994	799	n/a
Gordon/Bonaccord Street	41	1984/pre '50	677	647
Hester & Church Street	64	1993	678	n/a
Lakeview Estates	48	1980/81	657	636
Lorentz Apartments	101	1969	733	712
Lutz & Kendra Street	40	1950/75	708	687
Pine Glen Apartments	54	1974	703	683
Suffolk Street	80	2000	718	694
Moncton Total	**1,426**			

NEW BRUNSWICK	Units	Year Built	Average Rent	
			Dec-11	Dec-10
SAINT JOHN				
37 Somerset Place	21	2007	$1,070	$1,070
53 Somerset Place	16	1973	680	659
115 Woodhaven Drive	24	1977	600	580
Blue Rock Estates	60	2007	804	779
Carleton Towers	60	1968	675	656
Cedar Glen Apartments	204	1977	681	651
Ellerdale Apartments	154	1975	642	623
Fort Howe Apartments	153	1970	782	761
Parkwood Apartments	205	1947	645	624
Rocky Hill Apartments	42	2004	937	912
Sydney Arms	54	1961	733	709
The Anchorage	51	2003	937	916
Woodward Gardens	99	1962	770	753
Saint John Total	**1,143**			
MIRIMICHI				
Edward Court	96	1993	$662	$641
New Brunswick Total	**3,958**			

NEWFOUNDLAND	Units	Year Built	Average Rent	
			Dec-11	Dec-10
ST.JOHN'S				
Blackshire Court	69	1981	$786	$726
Cornwall Manor	31	1976	669	615
Forest Manor	65	1978	687	652
Freshwater Road Apartments	159	1972	735	663
Meadowland Apartments	105	1976	641	641
Mount Pleasant Manor	100	1976	646	623
Pleasantview Manor	36	1979	678	630
Rutledge Manor	53	1983	588	n/a
Torbay Road Apartments	84	1972	699	636
Village Manor	40	1978	693	648
St. John's Total	**742**			
GRAND FALLS				
Ridgeview Terrace Apartments	59	1975	$536	$516
Terrace Apartments	89	1970/90	738	731
Grand Falls Total	**148**			
Newfoundland Total	**890**			

(1) 180 Mill Street is a 127-unit property. Killam owns a 25% interest, representing 32 units

PRINCE EDWARD ISLAND	Units	Year Built	Average Rent	
			Dec-11	Dec-10
CHARLOTTETOWN				
198 Spring Park Road	32	2006	$1,001	$1,022
27 Longworth Avenue	24	1983	667	647
319- 323 Shakespeare Drive	22	2004	846	830
505-525 University Ave	35	2003	1,139	1,091
Bridlewood Apartments	66	1998/99	846	826
Browns Court	52	1997	1,014	975
Burns/University	95	2003	982	956
Charlotte Court	49	2011	830	n/a
Country Place	39	1998/02	862	843
DesBarres House	51	1978	594	573
Horton Park	69	1987	792	771
Kensington Court	105	1990	793	759
Queen Street	48	1978	649	632
Charlottetown Total	**687**			
SUMMERSIDE				
Nevada Court	48	1995	$714	$723
PEI Total	**735**			

ONTARIO	Units	Year Built	Average Rent	
			Dec-11	Dec-10
CAMBRIDGE				
100 Eagle Street	119	2008	1,517	$1,514
200 Eagle Street	106	2004	1,350	1,338
Cambridge Total	**225**			
LONDON				
180 Mill Street[1]	32	2011	$1,640	n/a
Richmond Hill Apartments	137	2009	1,571	$1,588
London Total	**169**			
Ontario Total	**394**			
APARTMENT TOTAL	**10,543**		**$832**	**$803**

Property Portfolio | Manufactured Home Communities

ONTARIO	Site	Acres	Average Rent	
			Dec-11	Dec-10
Bayview Estates	146	60	$242	$238
Cedardale [(1)]	204	25	156	154
Domaine le Village	74	36	270	271
Family Paradise [(1)]	214	50	159	153
Fergushill Estates	152	49	336	331
Golden Horseshoe	267	33	329	318
Green Haven Estates	230	45	313	299
Holiday Harbour [(1)]	143	15	141	141
Holiday Park [(1)]	289	35	147	139
Lakewood Estates	60	13	272	266
Lynnwood Gardens	64	54	305	297
Millcreek	73	35	386	382
Paradise Valley [(1)]	392	109	169	162
Parkside Estates	144	80	312	308
Pine Tree Village	70	38	359	353
Pinehurst Estates	82	16	232	228
Rockdale Ridge	69	96	248	245
Silver Creek Estates	237	80	310	308
Stanley Park	108	76	279	274
Sunny Creek Estates	160	53	198	192
The Village at Listowel	87	53	285	276
Westhill Estates	95	8	281	275
Wood Haven [(1)]	126	50	172	164
Ontario Total	**3,486**			

NOVA SCOTIA	Site	Acres	Average Rent	
			Dec-11	Dec-10
Brentwood Estates	307	67	$162	$162
Birch Hill Estates	217	73	233	222
Birchlee Estates	208	42	230	229
Cairdeil Estates	160	37	176	175
Cowan Place	56	50	188	187
Enfield Estates	56	10	216	200
Fairview Estates	131	131	326	316
Glen Aire Estates	266	130	194	194
Greenhill Estates	107	30	223	213
Heather Estates	217	72	219	204
Kent Drive Estates	50	10	151	151
Maple Ridge Park	160	160	264	254
Mountainview Estates	353	168	227	216
Silver Birch Estates	65	16	199	198
Valley View Hills	195	50	200	190
Nova Scotia Total	**2,548**			

NEW BRUNSWICK	Site	Acres	Average Rent	
			Dec-11	Dec-10
Burton Estates	91	32	$227	$217
Camper's City [(1)]	224	61	153	162
Crown & Currie Estates	176	140	249	243
Kent & Bayview	148	123	150	150
Milford Estates	151	22	293	n/a
Park P'Tiso Estates	86	18	172	162
Pine Tree Village	826	260	260	260
Parkside Estates	100	15	225	215
River East Estates	109	72	220	220
Tamarack Estates	419	75	238	228
White Frost Estates	211	51	209	209
New Brunswick Total	**2,541**			

ALBERTA	Site	Acres	Average Rent	
			Dec-11	Dec-10
Lynwood Estates	110	18	$367	$366
Evergreen Estates	73	11	373	359
Hillpark Estates	136	18	345	332
Alberta Total	**319**			

SASKATCHEWAN	Site	Acres	Average Rent	
			Dec-11	Dec-10
Sunset Estates	247	77	$314	$312
Saskatchewan Total	**247**			

NEWFOUNDLAND	Site	Acres	Average Rent	
			Dec-11	Dec-10
Lakeview Court	86	13	$173	$158
Sunset Parkway	84	43	164	164
Newfoundland Total	**170**			

BRITISH COLUMBIA	Site	Acres	Average Rent	
			Dec-11	Dec-10
The Poplars	130	36	$385	$377
British Columbia Total	**130**			

MHC TOTAL	**9,441**		**$237**	**$231**

(1) Properties are seasonal. Average monthly rent shown equal to annual rent divided by 12.

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Basis of Presentation

The following management's discussion and analysis ("MD&A") has been prepared by management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the years ended December 31, 2011 and 2010. The consolidated financial statements for the years ended December 31, 2011 and 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These documents, along with the Company's 2011 Annual Information Form are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at March 6, 2012.

Forward-looking Statements

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

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

Non-IFRS Measures

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

- Net operating income (NOI) is calculated by the Company as income from property operations plus income from home sales and ancillary revenues. The use of NOI when referring to a particular segment is calculated as revenue less costs for that segment.
- Funds from operations (FFO) are calculated by the Company as net income plus future tax expense, less fair value gains and non-controlling interest. Killam's definition of FFO is calculated in accordance with the REALpac definition.
- Adjusted funds from operations (AFFO) is calculated by the Company as FFO less the industry standard of $450 per apartment unit for "maintenance" related capital costs and $100 per Manufactured Home Community (MHC) site although the MHC industry does not have a standard amount for "maintenance" related capital costs.
- Same store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2011 and 2010 (91% of the portfolio based on unit count).
- Capitalization Rate (Cap-Rate) is the rate calculated by dividing the forecasted net operating income from a property by the property's fair value.

Killam's Key Performance Indicators (KPIs)

Management measures Killam's performance based on the following key performance indicators (KPI):

1) *FFO per share* – A standard measure of earnings for real estate entities. Management is focused on growing FFO per share on an annual basis.
2) *Rental Increases* – Management expects to achieve increases in average rental rates on an annual basis and measures the average rental increases achieved.
3) *Occupancy* – Management is focused on maximizing occupancy levels. This measure considers units rented as a percentage of total units at any period of time.
4) *Same Store NOI Growth* – This measure considers the Company's ability to increase the NOI of properties that it has owned equivalent periods year-over-year, taking out the impact of acquisitions and developments.
5) *Weighted Average Cost of Debt* – Killam monitors the average cost of its total debt, and its mortgage debt.
6) *Debt to Total Assets* – Killam measures its debt levels as a percentage of total assets and works to ensure that the debt remained at a conservative level.
7) *Term-to-Maturity* – Management monitors the average number of years to maturity on its debt.
8) *Interest Coverage Ratio* – A 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, the lower the credit risk.
9) *Debt Service Coverage Ratio* – A measure of credit risk used by lenders, this measure considers Killam's ability to pay interest and principal on outstanding debt and will not include any changes in fair value associated with Killam's investment properties. Generally, the higher the debt service coverage, the lower the credit risk.

Overview of Killam Properties

Killam Properties Inc., based in Halifax, Nova Scotia, is one of Canada's largest residential landlords, owning, operating and developing multi-family apartments and manufactured home communities (MHCs). Killam's 142 apartment properties are located in Atlantic Canada's six largest urban centres and in Ontario. The Company's MHCs are located across Canada. The value of Killam's real estate assets at December 31, 2011 was $1.3 billion (including investment properties under construction). Killam is focused on growing its portfolio, maximizing the value of its properties and increasing FFO per share.

Killam was founded in 2000, based on the recognition of an opportunity to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam's first apartment was purchased in 2002 and its first MHC was purchased in 2003.

From 2002 to 2009, Killam's apartment portfolio grew through the acquisition of properties in Atlantic Canada's six largest cities, including Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown. Killam is now Atlantic Canada's largest residential landlord, with a 12% average market share of the multi-family rental units in these core markets. During 2010, Killam entered the Ontario apartment market with the purchase of two buildings in Cambridge, and one building in London. A fourth Ontario property was acquired in London in 2011. Killam plans to expand its presence in Ontario with additional acquisitions. The apartment business is Killam's largest segment, accounting for 78% of the Company's NOI from property operations in 2011.

During 2010 Killam began to complement its acquisition program with the construction of new apartment buildings. The Company's first development project, a 49-unit building in Charlottetown was completed in 2011. Four other development projects, totaling 282 units, are currently underway and expected to be completed in 2013. The aggregate cost of the development projects is $57.8 million, accounting for approximately 4% of Killam's asset base.

The Company's multi-family rental portfolio is distinguishable from the majority of other residential rental companies through its ownership in MHCs, also known as land lease communities and trailer parks. Killam owns the land and infrastructure supporting each community and leases the lots to tenants, who own their own homes and pay Killam a monthly site rent. With 56 communities, Killam owns the largest portfolio of MHCs of any publicly traded company and is the second largest owner of MHCs in Canada. The portfolio includes MHCs across Canada, with the largest ownership interest in Ontario, New Brunswick and Nova Scotia. In 2011, the MHC business accounted for 22% of Killam's NOI from property operations.

Overview of Financial and Operating Results

The following table presents a summary of Killam's financial and operating performance for the year ended December 31, 2011 compared to 2010.

Results of Operations	**2011**	2010	Change
Property revenue	**$125,761**	$114,853	9.5%
NOI	**$76,945**	$71,410	7.8%
Income before fair value gains	**$32,671**	$29,921	9.2%
Net income applicable to common shareholders	**$65,968**	$53,786	22.6%
Earnings per share - basic	**$1.45**	$1.24	16.9%
FFO	**$31,757**	$29,036	9.4%
FFO per share - basic	**$0.698**	$0.669	4.3%
Shares outstanding (December 31st)	**49,290,571**	44,971,566	9.6%
Weighted average shares outstanding (basic)	**45,523,031**	43,393,351	4.9%
Weighted average shares outstanding (diluted)	**52,090,199**	47,201,234	10.4%

Same Store Results	**2011**	2010	Change
Same store revenue	**$109,689**	$106,927	2.6%
Same store expenses	**$44,176**	$41,615	6.2%
Same store NOI	**$65,513**	$65,312	0.3%

Balance Sheet *(as at December 31)*	**2011**	2010	Change
Investment properties	**$1,246,645**	$1,081,778	15.2%
Investment properties under construction	**$11,574**	$1,033	N/A
Total assets	**$1,329,531**	$1,116,333	19.1%
Total liabilities	**$816,988**	$689,292	18.5%
Total equity	**$512,543**	$427,041	20.0%

Ratios	**2011**	2010	Change
Total gross debt to total assets	**56.2%**	57.0%	↓80bps
Weighted average mortgage interest rate	**4.63%**	4.95%	↓32bps
Weighted average years to maturity	**3.8**	4.0	(5.0)%
Interest coverage	**1.98x**	2.01x	(1.0)%
Debt service coverage	**1.34x**	1.35x	(0.7)%

Summary of 2011 Results

Demand for Apartments Remained Strong

Killam's apartment occupancy has been stable, generally between 97% and 98% for the last three years. Occupancy remained strong throughout 2011, averaging 97.7%, compared to 97.8% in 2010, with strength in most markets. Moncton is one market that showed some softness in 2011, due to an increase in new construction completions in the city. High occupancy levels across the portfolio has resulted in more aggressive rental increases in the second half of 2011 and leading into 2012. Same store apartment rents were up an average of 2.8% in 2011, compared to 2.2% in 2010.

FFO Growth

Killam earned FFO of $31.8 million, or $0.698 per share, during 2011 compared to $29.0 million or $0.669 per share during 2010. The 4.3% growth in FFO per share was primarily attributable to the positive NOI contribution from acquisitions during the second half of 2010 and during 2011 and same store property growth.

Stability of MHC Highlighted

MHCs posted a 2.3% increase in same store NOI in 2011, compared to an average increase of 3.5% for the previous five years. Revenues increased by 3.2%, and expenses increased by 5.0%. With more consistent occupancy levels, minimal exposure to heating costs and less in repair and maintenance costs, same store earnings from MHCs are more stable than the apartment portfolio.

Higher Operating Costs Impacted Apartment NOI Growth

Killam's same store apartment portfolio posted a 0.3% decrease in NOI in 2011, compared to an average increase of 4.9% for the previous five years. Total property expenses were up 6.5% in 2011, compared to an average increase of 2.9% for the previous five years. The most significant increase in expenses in 2011 was a 9.2% increase in utilities, driven predominantly by the higher cost of heating oil. Volatile oil costs have impacted Killam's same store apartment earnings for the past four years and is why Killam has recently converted 15 heating plants to natural gas and has only 18% of the portfolio heated with oil today compared to 31% at December 31, 2010.

Benefiting from a Low Interest Rate Environment

Killam benefitted from the low interest rate environment in 2011 and renewed maturing mortgages at lower interest rates. During 2011, Killam successfully refinanced $51.7 million in maturing mortgages at a weighted average interest rate of 3.38%, 217 basis points lower than the weighted average rate of 5.55% on the debt prior to refinancing. Killam took advantage of lower long-term rates with 10-year terms for 43% of apartment refinancings and new mortgages placed in 2011.

Capital Raised to Fund Growth

In June 2011, Killam closed a $46 million public offering of convertible unsecured subordinated debentures, and in November raised $40 million with the issuance of 3.74 million shares at $10.75. The capital, primarily raised to fund property acquisitions and development projects, was partially deployed in 2011 to fund Killam's $106.5 million in acquisitions in the year, and $9.7 million in apartment development projects. As the funds were not fully-deployed, Killam ended the year with a cash balance of $43.3 million.

Acquisitions Completed in a Competitive Acquisition Environment

Killam completed $106.5 million in acquisitions in 2011, including $97.1 million for 15 apartment properties and $2.5 million for an MHC. In addition, Killam invested $2.8 million for parcels of land for development in St. John's and Charlottetown and $4.1 million for a 50% interest in a two-building commercial complex in Halifax that is the location of Killam's head office. The apartment acquisitions included assets in Fredericton, Moncton, Halifax, St. John's and London, Ontario. The Ontario acquisition, representing an $8.5 million investment for Killam, is the first asset to be held in Killam's partnership with Kuwait Finance House ("KFH"), a partnership established in 2010. The acquisition market in Ontario continues to be very competitive.

Real Estate Valuations Rising

Killam recorded $52.1 in fair value gains in 2011, as compressing Cap-Rates increased the fair value of the Company's apartment and MHC portfolios. The low interest rate environment and the stability of the real estate sector in Canada had resulted in higher valuations for real estate assets. The gain in real estate valuations does not impact the Company's FFO per share, its key measure of performance.

Progress on Development

2011 marks Killam's second year as an apartment developer. During the year, the Company completed its first apartment property and began construction of four other developments. The four developments underway represent 282 units, and are expected to be completed during the first quarter of 2013. As at the end of 2011, Killam had $11.6 million invested in properties under construction, representing 20% of the expected total cost of $57.8 million.

Atlantic Canada's Dominant Apartment Landlord

The following table summarizes Killam's apartment investment by market as at December 31, 2011:

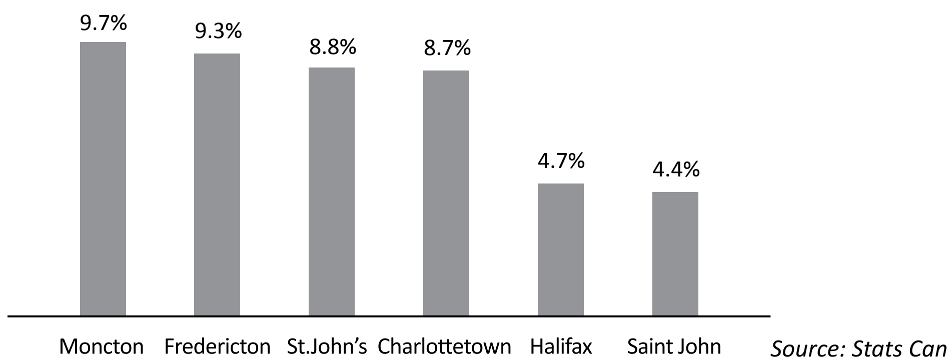
APARTMENT PROPERTIES

	Units	Number of Properties	Market Share %	% of Apartment NOI
Halifax, NS	4,410	48	10.8%	47.2%
Moncton, NB	1,426	28	14.4%	9.8%
Fredericton, NB	1,293	19	16.2%	10.4%
Saint John, NB	1,143	13	15.1%	8.2%
St. John's, NL	742	10	19.9%	6.5%
Charlottetown, PE	687	13	17.6%	6.7%
Cambridge, ON	225	2	4.7%	4.3%
London, ON	169	2	0.4%	2.9%
Other	448	7	N/A	4.0%
Total	10,543	142		

Growing Population in Atlantic Canadian Cities

Atlantic Canada is home to 2.3 million people, approximately 43% of whom live in the six largest cities. The urbanization trend is strong across Atlantic Canada. The net change in population in Killam's core markets, as measured by Statistics Canada in the 2011 Census, are shown in the following graph. Over the last five years these cities have experienced increased population growth, driven by urbanization and immigration.

Population Growth by City (2006-2011)



Source: Stats Can

Looking forward, Killam expects to see continued population and economic growth in its core Atlantic Canadian markets. Management expects Halifax and St. John's to lead the Atlantic Canadian market over the next few years. As the largest city in Atlantic Canada, Halifax continues to attract a diverse population, both from rural areas of Nova Scotia, and internationally. Halifax's Irving Shipbuiling's award of the $25 billion, 25-year ship building contract, announced in October 2011, will have positive growth implications for the city, and Atlantic Canada as a region. The contract is expected to create 11,500 local jobs for the economy during peak years and 8,500 during an average year, leading to a growing population base and GDP with an increased demand for housing. With 47% of Killam's apartment NOI earned through its centrally located properties in Halifax, Killam expects to benefit from the increased demand for housing.

St. John's, Newfoundland has benefited from offshore investments with exceptionally strong economic growth in recent years; the St. John's economy grew by 5.8% in 2010, as reported by the Conference Board of Canada, the most growth in gross domestic product of any city in Canada in 2010. Although the GDP growth in 2011 has moderated, and is expected to remain moderate in 2012, population growth and investments in the city have resulted in sharp increases in the cost of housing. The decreased affordability of home ownership, coupled with a lack of new construction of rental units for the last twenty years, is expected to fuel strong demand for rental units in St. John's. One of Killam's four new construction projects is located in St. John's, and is expected to lease-up quickly upon completion in 2013 due to the strong demand for new rental units in the city.

Decreasing Capitalization Rates

Prior to Killam's consolidation of apartments in Atlantic Canada, the largest apartment owner had approximately 1,200 units, representing less than 2% of the market. The fragmented ownership in Atlantic Canada's major centres enabled Killam to purchase apartment buildings at attractive yields, 100 to 150 basis points higher than comparable assets in Canada's other major cities.

Since 2005 there has been Cap-Rate compression in Killam's core markets, a trend experienced throughout Canada. Low interest rates, access to CMHC insured financing and demand for multi-family residential properties have all contributed to decreased Cap-Rates. Properties in the Halifax market now trade at Cap-Rates in-line with many of Canada's larger cities. Today, Cap-Rates in other Atlantic Canadian cities are marginally higher than in Halifax.

Killam has a Solid Infrastructure

Killam's operational platform can support a larger and more geographically diverse portfolio. In addition to a head office in Halifax, Killam has regional offices in Saint John, Fredericton, Moncton and Charlottetown. Property management is handled internally for all apartment locations, with the exception of Newfoundland, where properties are managed by an arm's length, third-party management firm.

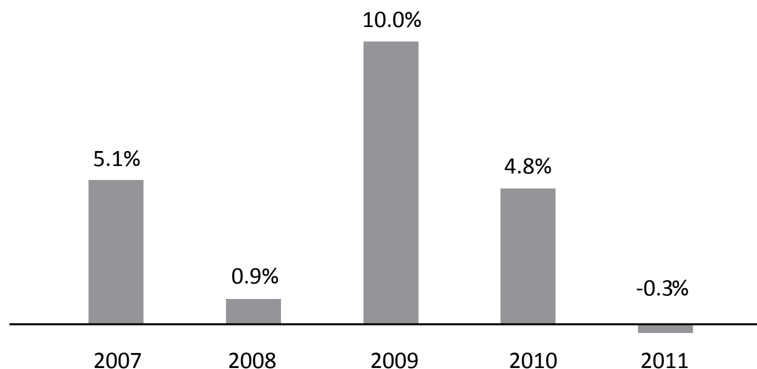
Management continues to see opportunities to acquire apartment properties in Atlantic Canada, as well as expanding ownership in the Ontario market with apartment acquisitions. Acquisitions in other areas of Canada will also be considered. During 2011, 7.2% of Killam's NOI from apartment property operations was generated outside Atlantic Canada, only the second year of investing in apartments outside Atlantic Canada. Management expects to increase this percentage by acquiring apartments in other markets, with a focus in Ontario, especially Ottawa, the Greater Toronto Area and the Kitchener/Waterloo area. Further comments on plans to increase investment outside Atlantic Canada are provided in the strategy section.

Increasing the Value of the Apartment Portfolio through NOI Growth

Management is focused on improving the performance of the current portfolio through annual increases in rents, maintaining high occupancy, and controlling expenses. Improving the profitability of the portfolio will generate higher FFO per share and support a higher net asset valuation for the portfolio, given a stable Cap-Rate environment.

A key measure of Killam's success is the ability to realize improved profitability from same store NOI growth. Same store NOI growth for apartments over the last five years is shown below.

Apartment Same Store NOI Growth



The Company has a history of successfully generating NOI growth based on a combination of increased revenue and cost management. The NOI growth in 2011 was impacted by a higher than normal increase in expenses, up 6.5% in 2011, including a 9.2% rise in heating and utility costs.

Limited Exposure to Rent Control

Killam is generally able to move rents to market on an annual basis. PEI is the only province in Atlantic Canada with rent control, representing only 6.9% of Killam's apartment units. In Killam's other rental markets, rents can be adjusted to market on an annual basis. Although Ontario has rent control, the legislation excludes properties built after 1991. Killam's properties in Ontario are all newer properties (built in 2004-2011) and therefor do not fall under the rent control guideline. The Company analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to increase rents for both existing tenants and on turnovers. The ability to increase revenue is important in generating NOI growth. Over the last three years, Killam has increased rents by an average of 3.3%, 2.2% and 2.8% in 2009, 2010 and 2011, respectively. Management expects to increase same store apartment revenue an average of approximately 3% in 2012. The majority of this increase is expected to come from higher rents. As noted, occupancy plays a key role in determining Killam's ability to raise rents.

Managing Costs

Managing costs is another key component in generating NOI growth. Management is able to control approximately 40% of operating expenses, including labour costs and repairs and maintenance. The remaining operating costs, including utilities and property taxes, are less controllable. Energy costs represented approximately 31% of Killam's apartment operating costs in 2011. As at December 31, 2011, Killam's apartments were heated with a combination of natural gas (42%), electricity (40%) and oil (18%). Heating costs for electrically heated units are generally paid by the tenant directly. Volatile oil and natural gas prices have an impact on Killam's ability to control these expenses. To mitigate this volatility the Company is active in energy conservation initiatives, natural gas conversions in Halifax and monitoring its energy usage. Killam has, at times, used hedging strategies to decrease price uncertainty.

CMHC Insured Debt Available

Killam's apartments and MHCs are financed with mortgages. Mortgage debt typically represents between 65% and 75% of the value of the asset. The terms on mortgages vary, but the majority of mortgages have five-year terms. Over the last two years Killam has increased the amount of 10-year debt, taking advantage of historically-low rates.

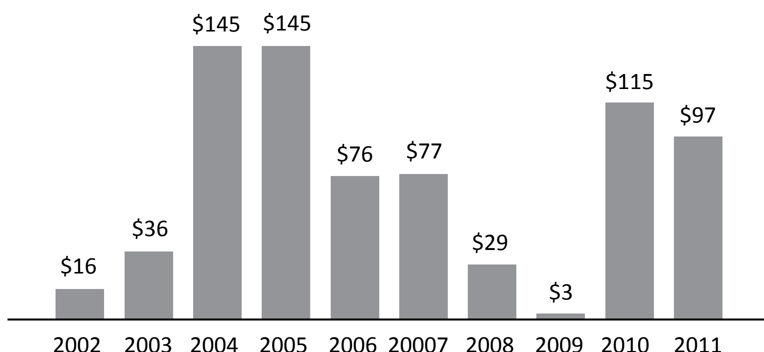
Canadian apartment owners qualify for CMHC mortgage loan insurance. Owners pay an insurance premium when entering into a CMHC insured loan. The insurer guarantees the loan, eliminating the risk to the lender and allowing lenders to offer mortgage financing at much lower interest rates than with conventional mortgages. Killam utilizes the insured product and has 61% of its apartments financed with CMHC insured debt. Killam increases the percentage of insured debt as mortgages mature and are refinanced.

CMHC insurance is not available for the owners of MHCs, however it is available for the individual home owners. Management has been notified by CMHC that their insured product will not be available to MHC owners.

Portfolio Growth through Acquisitions

Killam has been an active consolidator in Canada for the last 10 years. The graph following summarizes the amount invested in apartment acquisitions over the last 10 years.

Apartment Acquisition History ($millions)



Portfolio Growth through Development

Demand for newly constructed rental apartments is strong in Atlantic Canada, with high occupancy rates and above average market rents. CMHC's Fall 2011 Halifax Rental Market Report reported 99.2% occupancy for properties built in 2000 or later, compared to 97.6% for all rental markets in the city. The average rent for a two-bedroom unit in these newer buildings was $1,289 per month, compared to an average two-bedroom rent of $925.

Killam's apartment portfolio includes buildings of newer construction, (approximately 19% of Killam's apartment units were built in 2000 or later), which have performed well with high occupancy and lower than average capital requirements.

Management believes that developing new rental properties enables Killam to increase its ratio of newer product at better pricing than when it relies solely on the acquisition of new product. Direct involvement in the development also gives Killam involvement in the decision making and planning, allowing control over the quality and features of the buildings.

Killam completed its first development in 2011. The Company currently has four additional development projects underway, with a total estimated cost of $57.8 million, representing approximately 4% of its total assets. Please see page 55 of the MD&A for further discussion of current development projects

Manufactured Home Communities Offer Diversification and Stability

In addition to acquiring apartments, Killam has acquired a portfolio of MHCs. Killam owns the largest portfolio of MHCs of any publicly-traded company and is the second largest owner of MHCs in Canada. Killam acquired its first community in 2003, and as at December 31, 2011, owned 56 communities across seven provinces, with a total of 9,441 sites.

The following table summarizes Killam's MHC investment by province:

MHC PROPERTIES

	Sites	Number of Communities	% of MHC NOI
Ontario	3,486	23	39.0%
Nova Scotia	2,548	15	23.3%
New Brunswick	2,541	11	24.7%
Alberta	319	3	5.2%
Saskatchewan	247	1	3.4%
Newfoundland	170	2	1.4%
British Columbia	130	1	3.0%
Total	9,441	56	

How the MHC Business Works

With MHCs, Killam owns the land and infrastructure supporting each community and leases the lots to the tenants, who, in turn, own their own homes and pay Killam a monthly lot rent. In addition to lot rent, the tenant may have a mortgage payment to a financial institution for their home. The average rent in Killam's MHC portfolio is $237/month, which offers value and affordability to the tenants. The home owner is responsible for property taxes based on the assessed value of their home and Killam is responsible for the property tax on the land.

MHCs require less recurring capital investment and deliver a more predictable and stable cash flow than apartments. MHC home owners are responsible for the repair, maintenance and operating costs of their homes, which removes significant variable costs that are typically borne by Killam for apartments. The operating profit margin in Killam's MHC business averaged 65.3% over the last two years, compared to 59.7% for apartments.

The most significant costs to operate MHCs are water, land property tax and general repairs and maintenance to the water and sewer infrastructure. Killam's experience with MHCs has shown that the largest variable expenses are costs related to the water and sewer infrastructure. The majority of other costs have little variability.

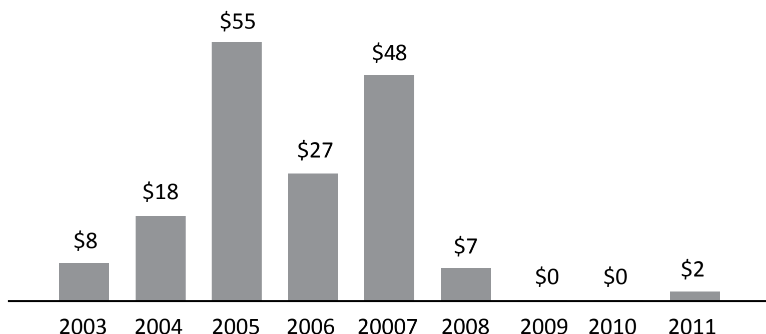
MHCs enjoy a stable tenant base, with consistently strong occupancy of approximately 98%. Should a tenant choose to leave a community, they sell their home, with the home typically remaining on the site and rent collection continuing uninterrupted from the new homeowner, who Killam approves as part of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

Consolidation of MHCs

Management identified an opportunity to consolidate the MHC market at the time that Killam was founded, recognizing that it was an overlooked asset class in Canada. Traditionally these assets had been held by individuals with very little consolidation activity in the market, resulting in higher Cap-Rates and the ability to generate attractive returns. Cap-Rates range widely for this asset class, impacted by location and quality, but have typically traded between 6% and 9% over the past few years. There has been limited individual community acquisition activity in the MHC sector during the last two years. Killam acquired its first MHC in three years in December 2011.

The following graph highlights the total investment in MHC acquisitions over the last nine years:

MHC Acquisition History ($millions)

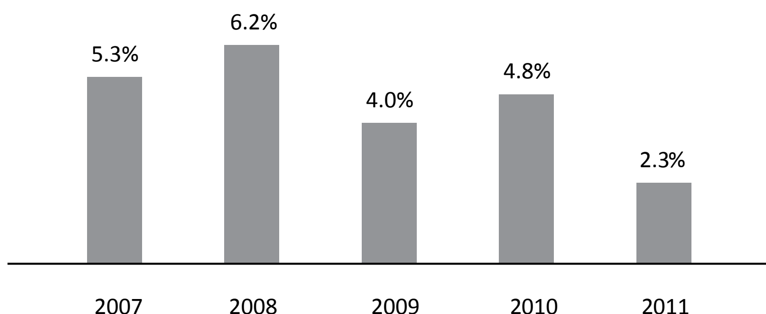


Increasing the Value of the MHC Portfolio through NOI Growth

As with apartments, Management is focused on improving the performance of the current MHC portfolio through annual rental increases, expansion opportunities, and managing expenses. Improving the profitability of the portfolio should lead to higher valuations for the properties in a stable Cap-Rate environment.

Management measures success in improving profitability through same store NOI growth. MHCs have little exposure to energy costs, resulting in relatively stable operating costs, even in an environment of volatile oil prices. Same store NOI growth for MHCs over the last five years is shown below:

MHC Same Store NOI Growth



Exposure to Rent Control for MHCs

MHCs fall under the same provincial tenancy regulations as apartments. Ontario and British Columbia are the only two provinces where Killam owns MHCs that have rent control. The allowable rent increase for renewing MHC tenants in Ontario and British Columbia were the same as for apartments in 2011, at 0.7% and 2.3%, respectively. The allowable rent increase for renewing MHC tenants in Ontario and British Columbia in 2012, are 3.1% and 4.3%, respectively. Higher rent increases are allowed for new tenants entering the communities. In addition, MHC owners also have the ability to apply for above guideline increases to offset significant capital expenditures.

During 2010, the government of Nova Scotia passed legislation that is expected to lead to a regulation on rental increases for MHCs starting in 2012. The formula to determine the annual increase has not yet been disclosed.

Expansion Opportunities for MHCs

Killam began MHC expansions in 2007 and since then has developed an additional 241 sites in eight communities and has sold 165 homes onto those expansions. Future expansion potential has been identified at 13 of the Company's MHCs, with the potential for up to 890 new sites. Killam expects to develop new sites as demand for new homes in the communities supports expansion costs.

The average per-site cost to expand varies based on the existing infrastructure in each specific community. The expansion costs to-date have averaged $29,000 per site. The income generated from a new home sale offsets a portion of the expansion cost, allowing expansion sites to be added at a net cost less than Killam's typical acquisition costs.

Home Sales

Killam acts as a retailer for home manufacturers to supply homes to Killam's communities, both at existing and expanded sites. The houses are built in a manufacturing facility and delivered by road to the sites. Homes are available in a variety of sizes and layouts and typically sell for between $90,000 and $185,000, with the higher sales prices usually in Ontario and Western Canada. Management expects to net $12,000 to $20,000 profit per home sale, which, as noted earlier, offsets a portion of the capital investment to expand the new sites. In 2011, new home sale income contributed $0.5 million to Killam's NOI. Annual new home sale levels are dependent on Killam's site expansion program and the overall economic environment.

Killam's Strategy

Killam's overall business objectives are:

1. To own a high-quality, geographically diverse multi-family rental and MHC portfolio in Canada,
2. To generate annual increases in FFO per share, and
3. To increase the underlying net asset value of its properties.

Consolidation of the Multi-family Residential Real Estate Market

Consolidation of the apartment market remains a key strategy, however this strategy has evolved further to include a focus on increasing the quality of the apartment portfolio as the Company expands its ownership footprint outside Atlantic Canada. NOI generated outside Atlantic Canada has grown on an annual basis, and in 2011 represented 16.4% of NOI from property operations. Management expects this percentage to grow to 50% of the NOI as the asset base is expanded.

Management plans to continue growing the apartment portfolio through accretive acquisitions, with an increased focus in Ontario and a specific interest in Ottawa, the Greater Toronto Area and the South Western Ontario area. Killam's acquisition activity has varied from a high of $200 million in 2005 to a low of $3.0 million in 2009. During 2011, Killam completed $106.5 million in acquisitions, including a newly constructed building in London, Ontario. Killam's acquisition goal for 2012 is approximately $100 million.

Increased Investment on New Properties

The average age of Killam's apartments is 27 years, relatively young compared to the apartment market in Canada which Management estimates to average 40-50 years old. Our experience has shown that the amount of capital spent on a property is strongly correlated to its age as the amount of annual capital to maintain a property generally increases as the building ages.

In addition to the less capital requirements, Killam's experience in its core markets highlights the fact that newer properties command higher rents and have higher occupancy. The new properties that we've added to our portfolio over the last four years are condo quality, providing tenants with features and amenities traditionally associated with ownership. We expect that demand for modern rental accommodations and its associated amenities will increase as the number of homeowners reaching retirement age grows and they seek an alternative to traditional home ownership.

Killam will also continue to acquire and hold older properties as we know that well located and maintained properties also perform well over the long-term. We are confident that augmenting Killam's portfolio with newer properties will better establish Killam as the landlord of choice in the markets where we operate.

Geographic Diversification

Geographic diversification in the apartment segment is a priority for Killam. Killam's apartment portfolio is primarily located in Atlantic Canada. With a 12% average market share in its core markets in Atlantic Canada, Killam is the region's largest residential landlord. The maximum market share management foresees Killam reaching in Atlantic Canada is 15%. Killam will continue to invest in Atlantic Canada, but on a selective basis. With Atlantic Canada representing only 4.9% of the Canadian rental market, Killam's opportunities for growth increase significantly when considering assets outside of Atlantic Canada.

With its strong operating platform, Killam can support a larger and more geographically diverse portfolio. Ontario is the next province where management expects to build a portfolio as the Ontario market is core to the Canadian rental market, with 36% of the Canadian rental universe. Killam started to build its Ontario portfolio in 2010 with three property acquisitions and we have added to this in 2011 by adding a fourth property.

In an effort to expedite its entrance into the Ontario rental market Killam formed a partnership with KFH in 2010 with the objective of acquiring multi-family properties in Ontario. Under the partnership, the partners may contribute equity up to $100 million, with 75% of the equity from KFH and 25% from Killam, to purchase up to $250 million in apartments. Killam will manage all properties purchased in the partnership. This partnership agreement allows Killam the opportunity to acquire larger properties than it would otherwise without a partner. The term of the partnership agreement is 5 years, plus the option of two one-year extensions. At the end of the term, KFH is expected to exit the investment, providing Killam the opportunity to acquire full-ownership of the properties. During 2011 the first property was acquired under the partnership and Killam expects to purchase additional properties through the partnership in 2012.

Killam's MHC portfolio is more geographically diversified than the apartment portfolio, with the highest MHC ownership in Ontario, where Killam owns 23 communities. In addition, Killam owns 5 communities in Western Canada.

Growth in Same Store NOI

Killam is focused on improving the performance of its current portfolio through annual increases to rents, stability of occupancy and expense management. Improving the profitability of the portfolio is expected to lead to higher valuations for the assets in a stable Cap-Rate environment. Please see a detailed analysis in the 2011 Financial Overview section of the MD&A.

Maximize Value of Excess Land

Killam has 4 apartment properties with excess land which Management has identified for new apartment developments totaling 300 units. In addition, Management is evaluating opportunities at multiple additional sites it owns with redevelopment potential to determine what additional density may be utilized.

As well, Management has identified the potential for an additional 890 MHC sites in its current MHC portfolio and expects to develop new sites on its existing MHC properties as demand for new homes supports expansion costs. Management will continue to look for acquisitions with expansion opportunities. Home sale earnings will partially offset the cost of expansion and drive earnings growth.

Summary of 2011 Key Objectives and 2012 Targets

Consolidation of the Multi-family Residential Real Estate Market	
2011 Target	Complete $100 million to $150 million in acquisitions.
2011 Performance	Killam's acquisitions totaled $106.5 million in 2011 as set out below: ▪ Completed $97.1 million in apartment acquisitions (including $8.5 million accounted for as an equity investment). ▪ Purchased an MHC for $2.5 million. ▪ Invested $2.8 million for the acquisition of land for apartment development. ▪ Purchased a 50% interest in Killam's head office building complex for $4.1 million.
2012 Target	Complete approximately $100 million in acquisitions.
Increase Investment in New Properties	
2011 Target	Complete first apartment development and continue to acquire new properties.
2011 Performance	Charlotte Court, Killam's first apartment development, was completed in June 2011 and Killam began construction of four new apartment developments during 2011. 10 of 15 apartments acquired in 2011 were built in the last ten years, including three built in 2011 and still in their initial lease-up phase.
2012 Target	Acquire new properties as part of the acquisition program in 2012. Continue with Killam's four developments, on schedule and on budget.
Geographic Diversification	
2011 Target	Killam's long-term goal is to have 50% of NOI generated within Atlantic Canada and 50% outside Atlantic Canada. No quantitative goal of investment outside Atlantic Canada had been identified for 2011.
2011 Performance	Acquired a newly constructed 127-unit apartment in London, Ontario. The purchase price of the building was $33 million, with Killam taking a 25% ownership interest. 16.4% of total NOI was generated outside of Atlantic Canada, up from 15.4% in 2010.
2012 Target	2012 acquisition program to include investments in Ontario.
Growth in Same Store Net Operating Income	
2011 Target	Grow same store NOI by 2% to 4%.
2011 Performance	Consolidated same store NOI increased by 0.3%. Results were impacted by a 6.2% increase in expenses, including a 19% increase in the cost of natural gas and heating oil. Invested $0.9 million to convert 15 heating plants, representing approximately 1,000 units, to natural gas from oil in Halifax. The conversions were completed in late 2011, and early 2012. The cost savings associated with the conversions will be realized in 2012.
2012 Target	Same store NOI growth of 2% to 4%.
Maximize the Value of Excess Land	
2011 Target	Complete 40 to 50 new home sales. (Sales include homes sold on expanded MHC sites).
2011 Performance	Completed 45 home sales. Began two apartment developments on excess land, including land adjacent Shaunslieve Apartments in Halifax and Forest Hills in Fredericton.
2012 Target	Complete 30 to 40 home sales and gain approval for additional developments on excess land.

Capability to Deliver Results

Canadian Real Estate Market

Killam's ability to grow its portfolio will depend on the ability to source properties at accretive prices. Demand for ownership of apartment properties in Canada is strong with many purchasers competing for assets. Killam has built its portfolio slowly, primarily through the acquisition of unbrokered sales, thereby avoiding a competitive bid process. Cap-Rate compression is on-going, making it difficult to source quality assets that provide accretive returns, especially when factoring in costs associated with deferred maintenance.

Access to Capital

Killam's ability to grow through acquisitions and development will be dependent on the ability to access mortgage debt and to raise equity in the capital markets. Cash flow from operating activities is expected to meet Killam's ongoing operating requirements; however, Killam's growth plans require a supply of new capital. Capital sources are defined as mortgage debt, vendor mortgages, debenture debt and share capital equity. As at December 31, 2011, Killam had $43.3 million in cash on hand and two unencumbered properties which are expected to have debt totaling $7.0 million added in 2012, for total capital available for acquisitions and development of $50.3 million. Based on an assumed $15 million cash required for the development projects underway and an assumed 70% mortgage debt on acquisitions, this capital is expected to support acquisitions and/or further developments of approximately $100 million.

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

Increases in Utility and Property Tax Costs

Utility costs and property taxes represent approximately 60% of total operating costs. Killam can partially impact the consumption of energy, but not the pricing. Property taxes are controlled by the municipalities in which the Company operates. Significant changes in energy prices and property taxes could impact Killam's ability to meet its same store NOI growth targets.

2012 Outlook

Competitive Acquisition Environment

With continued low interest rates, access to CMHC insured financing for apartments and demand for yield, management expects to see strong demand for apartment acquisitions in Canada in 2012, which could push Cap-Rates lower than 2011 levels. An increased competitive environment could negatively impact Killam's' ability to meet its acquisition target for the year.

Low Interest Rates

Killam does not expect interest rates to escalate materially, allowing maturing debt to be renewed at lower interest rates for 2012. Killam has $47.2 million of mortgage debt maturing in 2012, with a weighted average interest rate on the apartment debt ($30.3 million) of 4.82% and a weighted average interest rate on the MHC debt ($16.9 million) of 5.94%. Killam expects to refinance its apartment debt at between 3.0% and 3.5% and MHC debt at between 5.0% and 5.5% for 2012.

Stronger Halifax Economy

The positive economic impact from Irving Shipbuilding's $25 billion Canadian Navy contract should start to be felt in 2012 with increased GDP in Halifax, an increase in skilled labour jobs and increased demand for housing. The improvements are expected to be positive but subtle in 2012, as the full impact from the 25-year contract will be gradual.

Increased Levels of Multi-Family Construction Starts May Impact Vacancy

Killam has maintained high occupancy across its portfolio for the last three years. High levels of new apartment construction in two of Killam's core markets may result in pressure on occupancy levels in 2012. Both the Halifax and Moncton markets have seen an increase in apartment developments over the last two years. In Halifax, a record level of newly constructed units is expected to come on the market in 2012, which may create short-term upward pressure on the vacancy rate. Moncton has experienced a similar construction boom, as the combined number of apartment starts in the Moncton area for 2010 and 2011 reached historically high levels for the two year period.

Acquisitions Focused on Apartments, Less Investment in MHCs

Over the last two years Killam has invested $210 million to acquire apartments and $2.5 million on MHC acquisitions. The acquisition opportunities are fewer in the MHC segment as Killam and other MHC consolidators have already purchased many of the larger and higher quality communities. Although there are still communities of interest in Canada, the number of investment-grade properties that are available annually is small compared to the number of apartments available for purchase. Management expects the majority of acquisition completed in 2012 will be apartments.

2011 Financial Overview

Property Revenue

For the year ended December 31,	**2011**	2010	% Change
Same store properties	**$109,689**	$106,927	2.6%
Other properties	**16,072**	7,926	102.8%
	$125,761	$114,853	9.5%

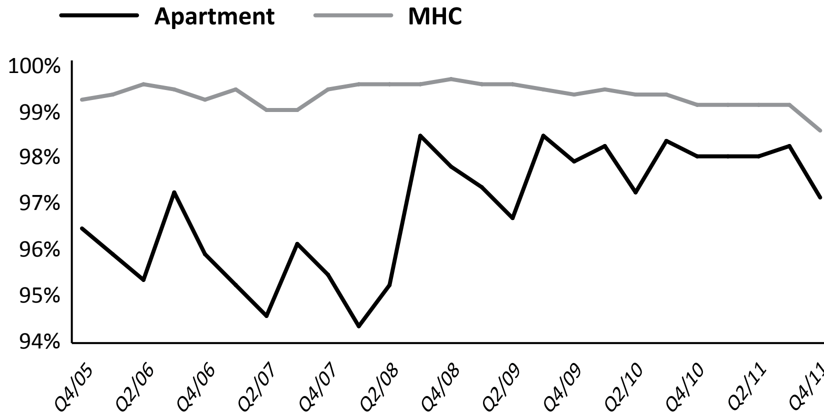
Same store assets reflect the 171 stabilized properties that Killam has owned for equivalent periods in 2011 and 2010. The same store analysis includes 18,170 units, or 91% of Killam's portfolio. Home sales are excluded from the analysis. Other properties include properties not included in same store results including properties acquired in 2011 and 2010, developments and other non-stabilized properties. Details of properties acquired in 2011 are found on page 52.

The annualized operating revenue for the properties the Company owned as at December 31, 2011, is approximately $131.6 million, based on current rents less a 3% vacancy allowance. Killam, like all real estate rental operators, is sensitive to vacancy rates, however, Killam believes its portfolio is quite defensive given its diversification in terms of multiple locations and two distinct asset types. Based on current rents, an annualized 1% change in vacancy rates would impact the annualized rental revenue by $1.3 million.

Occupancy by Core Market

	December 31, 2011			December 31, 2010		
	Units	Occupancy	Average Rent	Units	Occupancy	Average Rent
Apartments						
Halifax, NS	4,410	97.3%	$856	4,325	98.3%	$824
Moncton, NB	1,426	94.1%	$779	1,138	96.5%	$741
Fredericton, NB	1,293	97.9%	$822	983	96.1%	$771
Saint John, NB	1,143	97.0%	$720	1,143	98.5%	$703
St. John's, NL	742	98.7%	$695	689	99.1%	$651
Charlottetown, PE	687	98.3%	$847	638	98.9%	$824
Other Atlantic	448	94.9%	$752	448	97.5%	$723
Ontario	394	96.7%	$1,489	362	94.7%	$1,491
Total Apartments	**10,543**	**97.0%**	**$832**	**9,726**	**97.8%**	**$803**
MHCs	**9,441**	**98.3%**	**$237**	**9,290**	**98.9%**	**$231**
Total Portfolio	**19,984**	**97.6%**		**19,016**	**98.3%**	

Occupancy Trending



Occupancy rates displayed above represent all units in stabilized properties at the end of the relevant quarter. At December 31, 2011, Killam excluded 182 apartment units from the occupancy statistics, including three newly constructed properties acquired in 2011 in their initial lease-up phase. Excluded from the MHC occupancy statistics are 150 MHC sites that had not been previously rented or are off-line, including some recently expanded sites, and the 1,592 sites in Killam's seasonal resort portfolio.

As highlighted in the graph, Killam's occupancy levels have remained high during the last three years. Apartment occupancy levels strengthened during 2008, and have since remained high, generally between 97.0%-98.0%. Killam's apartment occupancy levels are typically seasonal in nature, with the lowest annual occupancy usually at the end of the second quarter followed by the highest occupancy in September, at the end of the third quarter. Killam's apartments were 97.0% occupied at December 31, 2011, compared to 97.8% occupied at December 31, 2010. Demand for rental units in most core markets has remained strong throughout the year. The Halifax market, representing 42% of Killam's apartment units, remains robust. Demand is strongest for Killam's assets on Peninsula Halifax and in Clayton Park. Dartmouth is a submarket with more price sensitivity, and is a submarket that has seen a small increase in vacancy following more aggressive rent increases. Management expects the Halifax market to remain strong in 2012.

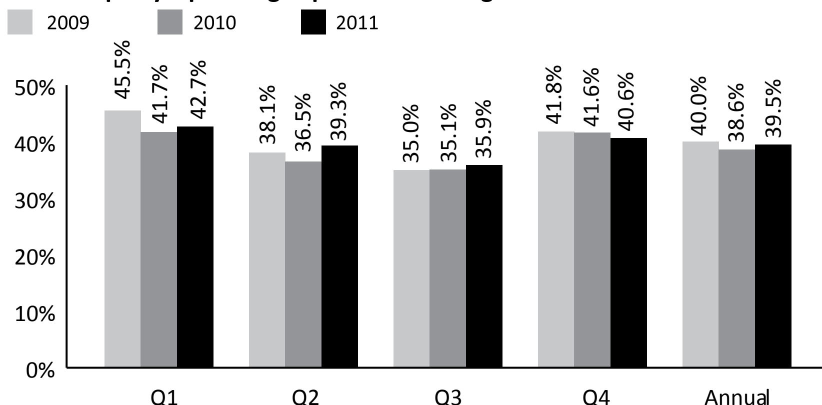
The Moncton market is experiencing softness following an increase in construction of rental units in the city in recent years. In addition, Killam has been pursuing rental increases in 2011, which may also have contributed to vacancy pressure at some properties. Looking forward, management expects the Moncton market may remain soft in the near-term relative to Killam's other markets as new supply continues to be introduced into the market. Killam has increased its marketing investment in Moncton and is closely monitoring rental increases.

Killam's MHC business generally experiences little fluctuation in its occupancy as tenants that move out of a community typically sell their home and the buyer pays the monthly site rental uninterrupted. The MHC tenancy change does not typically impact occupancy levels, as it can with apartments. Killam has experienced a reduction in occupancy at its MHCs, from 98.8% at December 31, 2010 to 98.3% at December 31, 2011. The change in occupancy is the result of a reduction in sites rented by third party retailers who were paying rent to reserve sites for future home sales, and approximately 24 tenants who moved during the year.

Property Operating Expenses

For the year ended December 31,	**2011**	2010	% Change
Same store properties	**$44,176**	$41,615	6.2%
Other properties	**5,561**	2,778	100.2%
	$49,737	$44,393	12.0%

Total Property Operating Expense Percentage



Killam's property operating expenses as a percentage of operating revenue for 2011 increased to 39.5% from 38.6% in 2010. This increase was attributable to a combination of increased fuel and utility expenses, a reduction in capitalized salaries and higher property taxes. These variances, discussed in more detail in the same store results section, combined with the 2.6% increase in rental rates resulted in a modest increase of 2.5% in NOI for 2011.

Consolidated Same Store Results[1]

For the year ended December 31,		**2011**		2010	% Change
Property revenue		**$109,689**		$106,927	2.6%
Property expenses					
Operating expenses	***17.7%***	**19,462**	*17.3%*	18,501	5.2%
Utility and fuel expenses	***12.6%***	**13,794**	*11.9%*	12,744	8.2%
Property taxes	***10.0%***	**10,920**	*9.7%*	10,370	5.3%
Total property expenses	***40.3%***	**44,176**	*38.9%*	41,615	6.2%
Net operating income		**$65,513**		$65,312	0.3%

Same store property NOI growth increased 0.3% year-over-year. Total revenues increased 2.6% due to rental increases. Total property operating expenses increased 6.2%. The largest increase was from utilities which were up 8.2% due primarily to a 31% increase in the cost of heating oil during 2011 compared to 2010. Property tax expense increased by 5.3%. In addition, operating expenses were up 5.2% relating to repair and maintenance expenses due to a decrease in the amount of capitalized labour costs. Please see detailed segmented same store analysis on pages 41 and 43.

1. Same store results reflect the operations for 171 stabilized properties that Killam has owned for equivalent periods in 2011 and 2010. The same store analysis includes 18,170 units, or 91% of Killam's portfolio (based on unit count). Home sales are also excluded from this analysis.

Segment & Same Store Review

Apartment Segment

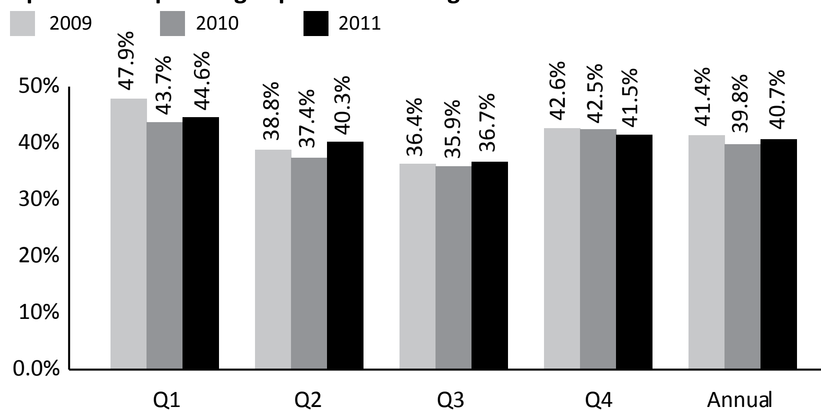
For the year ended December 31,		**2011**		2010	% Change
Property revenue		**$99,973**		$89,946	11.1%
Property expenses					
Operating expenses	***16.1%***	**16,101**	*16.1%*	14,642	10.0%
Utility and fuel expenses	***12.7%***	**12,703**	*12.2%*	10,986	15.6%
Property taxes	***11.9%***	**11,887**	*11.3%*	10,188	16.7%
Total property expenses	***40.7%***	**40,691**	*39.8%*	35,816	13.6%
Net operating income		**$59,282**		$54,130	9.5%
Weighted average rent per unit		**$832**		$803	3.6%

Killam's apartment business accounted for 78.0% of income from property operations for the year ended December 31, 2011, compared to 76.8% in 2010.

The apartment portfolio generated total revenue growth of 11.1% in 2011, compared to 2010. The increase was due to acquisitions in 2010 and 2011, as well as increased rents.

Total property expenses increased in 2011 as a percentage of total operating revenue to 40.7% from 39.8% in 2010. The 90 basis point increase is attributable to increased labour, fuel and utility costs and higher property taxes. A more detailed analysis of costs is presented in the same store results which follow.

Apartment Operating Expense Percentage



Same Store Results - Apartments

For the year ended December 31,		**2011**		2010	% Change
Property revenue		**$83,995**		$82,020	2.4%
Property expenses					
Operating expenses	***16.8%***	**14,078**	*16.4%*	13,448	4.7%
Utility and fuel expenses	***13.5%***	**11,360**	*12.7%*	10,404	9.2%
Property taxes	***11.6%***	**9,735**	*11.2%*	9,185	6.0%
Total property expenses	**41.9%**	**35,173**	40.3%	33,037	6.5%
Net operating income		**$48,822**		$48,983	(0.3)%
Weighted average rent per unit		**$797**		$775	2.8%

Revenue growth of 2.4% year-over-year was primarily attributable to increased average rents of 2.8%, increased laundry revenues and lower rental discounts and incentives.

General operating expenses, excluding utilities and property taxes, were up 4.7% year-over-year. The most significant increase in costs relates to a decrease in the amount of salaries that were capitalized and attributed to capital projects, resulting in a higher expense flowing through the income statement. During 2011 Killam implemented a change in how it captures the amount of labour attributable to capital projects. This change resulted in approximately $0.4 million of additional labour costs flowing through the income statement compared to 2010. Other operating costs, including repair and maintenance expense were stable year-over-year. Excluding the decrease in capitalized labour, operating expenses would have increased by 1.7% versus 4.7%.

Killam's apartment same store utility and fuel costs increased 9.2% during 2011, compared to 2010 as follows:

For the year ended December 31,	**2011**	2010	% Change
Natural gas and oil	**$5,082**	$4,259	19.3%
Electricity	**3,567**	3,580	(0.4)%
Water	**2,679**	2,517	6.4%
Other	**32**	48	(33.3)%
Total utility and fuel	**$11,360**	$10,404	9.2%

Natural gas and oil costs represented 45% of total utility and fuel costs in 2011, and 14% of total property operating expenses. Killam's apartments are heated with a combination of oil, natural gas and electricity. Apartment units heated with electricity are generally paid directly by the tenant, with Killam responsible for electricity in the common areas. Heating costs are included in rents for buildings heated with natural gas and heating oil. Killam has been reducing its reliance on heating oil through natural gas conversions in Nova Scotia and through the acquisition of properties not heated by oil. As December 31, 2011, 18% of Killam's units were heated by oil compared to 31% a year earlier.

Killam's natural gas and oil expenses increased by 19% compared to 2010, due primarily to a 31% increase in the average per litre cost of oil. The average cost of oil was $0.81 per litre during 2011, compared to $0.62 per litre in 2010. Killam's cost of natural gas increased 9% in 2011 compared to 2010. The weighted average cost during 2011 in Nova Scotia and New Brunswick were $8.71/Gj and $18.45/Gj, respectively, compared to $8.39 and $16.28 during 2010. The delivery rates in New Brunswick are based on market conditions and are structured to translate into a set percentage savings when compared to heating oil costs. In Nova Scotia, costs are based on a cost recovery model, a more common approach to rate setting. The cost of natural gas in 2011 converts to an equivalent oil cost of $0.33 per litre in Nova Scotia and $0.71 per litre in New Brunswick.

In addition to higher oil and natural gas costs, Killam's water charges increased 6.4% in 2011 due primarily to higher rates in Nova Scotia. Electricity costs remained stable as Killam continues to maximize its energy efficiency programs to lessen its carbon footprint and mitigate pressure from rising utility prices.

Apartment Same Store NOI – by city

For the year ended December 31,	**2011**	2010	% Change
Halifax	**$24,907**	$24,817	0.4%
Moncton	**4,861**	5,197	(6.5)%
Fredericton	**4,777**	4,791	(0.3)%
Saint John	**4,873**	5,045	(3.4)%
Charlottetown	**3,820**	3,796	0.6%
St. John's	**3,188**	2,957	7.8%
Other	**2,396**	2,380	0.7%
	$48,822	$48,983	(0.3)%

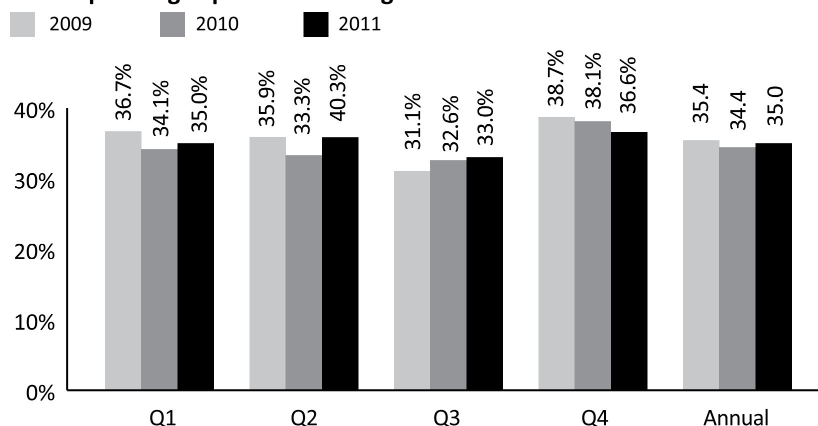
MHC Segment [(1)]

For the years ended December 31,		**2011**		2010	% Change
Property revenue		**$25,709**		$24,907	3.2%
Property expenses					
Operating expenses	***20.9%***	**5,384**	*20.3%*	5,053	6.6%
Utility and fuel expenses	***9.5%***	**2,435**	*9.4%*	2,340	4.1%
Property taxes	***4.6%***	**1,185**	*4.7%*	1,185	—%
Total property expenses	**35.0%**	**9,004**	*34.4%*	8,578	5.0%
Net operating income		**$16,705**		$16,329	2.3%
Weighted average rent per unit		**$237**		$231	2.6%

(1) The MHC segment and same store are virtually identical as the only property not included in same store is Milford MHC acquired December 20, 2011 which contributed only $14 thousand to NOI in 2011.

Killam's MHC business accounted for 22.0% of earnings from property operations during 2011 compared to 23.2% in 2010. Revenue from the MHCs increased by $0.8 million, or 3.2%, compared to 2010, due primarily to rental increases and ancillary services to tenants.

MHC Operating Expense Percentage



Total property expenses increased 5.0% in 2011 compared to 2010 and increased 60 basis points as a percentage of revenue (35.0% compared to 34.4%). Operating costs increased 6.6% year-over-year due primarily to higher labour and maintenance costs. Utility costs increased 4.1% year-over-year as water rates increased at a number of communities.

MHC – Detailed Segments

The following tables break out the revenue and operating costs for Killam's seasonal communities compared to traditional MHCs.

For the year ended December 31, 2011		**Seasonal Communities**		**Traditional MHCs**	**Total**
Property revenue		**$3,298**		**$22,411**	**$25,709**
Property expenses					
Operating expenses	***40.1%***	**1,321**	***18.1%***	**4,063**	**5,384**
Utility and fuel expenses	***5.7%***	**189**	***10.0%***	**2,246**	**2,435**
Property taxes	***3.5%***	**116**	***4.8%***	**1,069**	**1,185**
Total property expenses	***49.3%***	**1,626**	***32.9%***	**7,378**	**9,004**
Net operating income		**$1,672**		**$15,033**	**$16,705**

For the year ended December 31, 2010		Seasonal Communities		Traditional MHCs	Total
Property revenue		$3,176		$21,731	$24,907
Property expenses					
Operating expenses	*39.6%*	1,257	*17.4%*	3,796	5,053
Utility and fuel expenses	*5.4%*	173	*10.0%*	2,167	2,340
Property taxes	*3.9%*	124	*4.9%*	1,061	1,185
Total property expenses	*48.9%*	1,554	*32.3%*	7,024	8,578
Net operating income		$1,622		$14,707	$16,329

Of Killam's 56 MHCs, 7 are seasonal communities, offering residents an affordable cottage alternative and include a combination of year-long residents, seasonal residents (with full season leases) and short-term renters, representing 14%, 60%, and 26% of the rental revenue generated, respectively. Seasonality plays a considerable role in the timing of revenue generation with 25% of revenues earned during the second quarter and 55% of revenue earned during the third quarter.

Killam's seasonal communities generated NOI growth of 3.1% during 2011 driven by a 3.8% increase in revenues. Higher rates on seasonal rent, increased demand for short-term rentals and increased revenue from ancillary services contributed to the growth.

Traditional MHCs realized 2.2% NOI growth in 2011 as rental rates increased 2.4%. Offsetting this revenue growth was an increase in labour and maintenance costs.

Home Sales

For the year ended December 31,	**2011**	2010	% Change
Home sale revenue	**$4,229**	$3,006	40.7%
Cost of home sales	**(3,703)**	(2,559)	44.7%
New home placement fees	**55**	82	(32.9)%
Operating expenses	**(95)**	(126)	(24.6)%
Income from home sales	**$486**	$403	20.6%

Killam completed 38 home sales and 7 home sale placements during 2011, compared to 28 home sales and 17 home sale placements in 2010. Lynwood in Slave Lake, Alberta accounted for 17 of these sales. Killam and the community residents were fortunate that the community avoided destruction during the wildfires in Alberta in June, 2011. Based on an immediate need for housing following the fire, and available sites at the community, Killam reached an agreement with the Government of Alberta to sell 14 homes to the government. Home sales activity also included sales in Halifax, Antigonish, NS, Beamsville, ON and Saskatoon, SK. The average sale price and cost of homes sold in 2011 and 2010 was $111,290 and $97,450, respectively, resulting in an average gross margin of $13,840 per home (2010 - $16,000). Killam earned $7,850 per home placement in 2011 compared to $4,820 in 2010.

Home sale operating expenses include all costs associated with marketing homes, including open houses, advertising costs, etc.

Other Income

For the year ended December 31,	**2011**	2010	% Change
Total	**$435**	$547	(20.5)%

Other income includes interest on bank accounts, property management fees and revenue sharing agreements related to phone and cable services in the Company's properties. The 2011 amount includes a $0.4 million expense related to the remediation of an oil spill at one of the Company's MHCs in Ontario. A lawsuit has been initiated against the tenant and the tenant's oil supplier to recover the cost, however, given the uncertainty inherent in litigation, the decision was made to record the cost in 2011. Any proceeds from the lawsuit will be recorded when received. The size of the expense is not representative of regular clean-up costs, which typically cost approximately $30,000. Excluding this item other revenue increased 56% year-over-year, due primarily to increased property management fees associated with assuming the property management of Garden Park Apartments in Halifax.

Fair Value Gains

For the year ended December 31,	**2011**	2010	% Change
Apartments	**$42,968**	$35,118	22.4%
MHCs	**9,102**	3,980	128.7%
	$52,070	$39,098	33.2%

The weighted average Cap-Rate used to value the apartment properties decreased by 28 basis points from January 1 to December 31, 2011 (a 34 basis point decrease during 2010), reflecting an increased valuation for some properties. The Cap-Rates used to value the MHCs fell 19 basis points in 2011 and 24 basis points in 2010. See further discussion on Cap-Rates in the "Investment Properties" section of the MD&A.

Other Expenses

Financing Costs

For the year ended December 31,	**2011**	2010	% Change
Mortgage and loan interest	**$28,817**	$27,440	5.0%
Convertible debenture interest	**5,357**	3,225	66.1%
Subordinated debenture interest	**688**	687	0.1%
Capitalized interest	**(192)**	—	— %
	$34,670	$31,352	10.6%

Mortgage and loan interest expenses were higher during 2011, on a gross dollar basis, compared to 2010, due to the increase in the mortgage portfolio related primarily to the Company's 2010 and 2011 acquisitions. Mortgage and loan interest expense on Killam's same store properties was $25.0 million in 2011, down slightly from the $25.7 million expense in 2010. As a percentage of property revenue, mortgage and loan interest expense was lower during 2011, at 22.9%, compared to 23.9% in 2010.

Convertible debenture interest was higher in 2011 as the Company issued $57.5 million convertible debentures bearing interest at 5.65% on November 30, 2010 and $46.0 million convertible debentures bearing interest at 5.45% on June 2, 2011. In connection with the November 2010 financing, on December 13, 2010, Killam retired its outstanding $42.2 million convertible debentures bearing interest at 6.50%. The $57.7 million increase in convertible debentures, net of issuance costs, has been used to fund acquisitions and a portion of Killam's apartment development projects in 2011.

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates of its mortgages. An annualized 1% change in the interest rate on Killam's mortgage and vendor debt at December 31, 2011 would affect financing costs by approximately $6.4 million per year. However, only $44.7 million of Killam's mortgage and vendor debt matures in the next twelve months and that same interest rate change would impact Killam by only $0.4 million per annum. See further discussion regarding Killam's mortgage refinancings under the "Mortgage and Debentures Payable" section beginning on page 57. The Company's credit facility is discussed on page 59 of the MD&A.

Depreciation Expense

For the year ended December 31,	**2011**	2010	% Change
Total	**$301**	$383	(21.4)%

Depreciation expense relates to vehicles, heavy equipment and administrative office furniture, fixtures and computer equipment. These assets do not form part of the Company's investment properties. Although the vehicles and equipment are used at various properties they are not considered part of investment properties and therefore must be depreciated for accounting purposes.

Amortization of Deferred Financing Costs

For the years ended December 31,	**2011**	2010	% Change
Total	**$1,410**	$1,731	(18.5)%

Deferred financing amortization decreased $0.3 million as the 2010 expense included a $0.5 million write-off of unamortized deferred financing costs associated with Killam`s redemption of its 6.5% convertible debentures in December 2010. The costs related to mortgage assumption fees, application fees and legal costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. The costs associated with the convertible and subordinated debentures are amortized over the terms of the debentures.

General and Administrative Expenses

For the year ended December 31,	**2011**	2010	% Change
Total	**$7,542**	$7,545	—%
As a percentage of total revenues	**5.8%**	6.4%	

General and administrative expenses include expenses which are not specific to an individual property. These expenses include TSX related costs, management salaries and benefits, office rent, communication costs, office equipment leases, professional fees and other head office and regional office expenses. Management targets annualized general and administrative costs at approximately 6.0%.

Provincial Large Corporation Tax (Capital Tax)

For the year ended December 31,	**2011**	2010	% Change
Total	**$130**	$220	(40.9)%

The Company currently pays provincial capital tax in Nova Scotia based on the total taxable capital invested in that province at year-end. Total taxable capital invested includes shareholders' equity, debentures, credit facility and mortgages on properties held outside the Company's internal trusts and is not a function of the time the capital is invested. This tax is deductible for provincial and federal income tax purposes. The tax rate has been reduced compared to the prior year, is being phased out and is expected to be eliminated during 2012. Killam's capital spending on solar panels and wind turbines qualifies for reductions in its Nova Scotia capital tax. During 2010 the Company also paid capital tax in Ontario (the tax has been phased out in 2011).

Deferred Income Tax

The Company has booked future income tax expense for the years ended December 31, 2011 and 2010. Killam is not currently cash taxable and does not expect to pay cash taxes in the near future. The Company has not claimed the maximum Capital Cost Allowance (CCA) allowed over the past number of years and has the ability to reduce taxable income through increasing these claims. Based on the assumption that the Company does not add to its asset base, management estimates it would take approximately two to three years to fully utilize these deductions and begin paying cash taxes.

Funds from Operations (FFO)

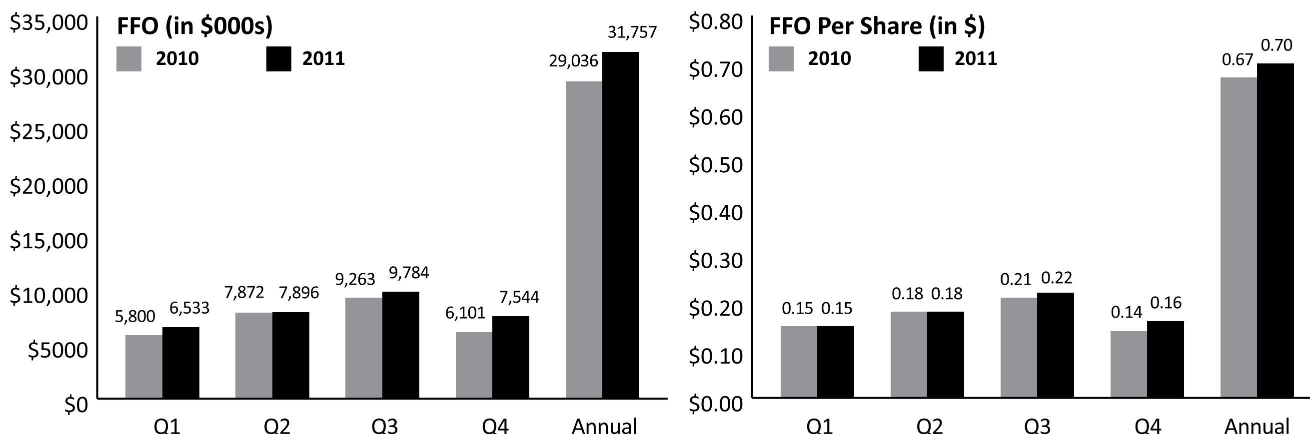
FFO is recognized as the industry-wide standard measure for real estate entities' operating performance, and management considers FFO per share to be a key measure of operating performance. The calculation of FFO includes adjustments specific to the real estate industry applied against net income to calculate a supplementary measure of performance that can be compared with other real estate companies and real estate investment trusts.

REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. Killam has changed its definition of FFO based on this recommendation. Prior to 2011, Killam's definition of FFO differed from REALpac as Killam adjusted for the amortization of financing costs, non-cash debenture interest and non-cash share compensation. Killam's comparable FFO results have been recalculated for comparative purposes. FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other public companies. Killam calculates FFO in accordance with the REALpac definition as follows:

For the year ended December 31,	**2011**	2010	% Change
Net income	**$66,821**	$54,408	
Fair value gains	**(52,070)**	(39,098)	
Non-controlling interest *(before tax and gains)*	**(914)**	(885)	
Deferred tax expense	**17,920**	14,611	
Funds from operations	**$31,757**	$29,036	9.4%
FFO/share - basic	**$0.698**	$0.669	4.3%
FFO/share - diluted	**$0.691**	$0.664	4.1%
Weighted average shares - basic (000's)	**45,523**	43,393	4.9%
Weighted average shares - diluted (000's) [1]	**45,961**	43,724	5.1%

(1) *The calculation of weighted average shares outstanding for diluted FFO and AFFO purposes excludes the convertible debentures as they are anti-dilutive.*

Killam earned FFO of $31.8 million, or $0.698 per share, during 2011 compared to $29.0 million, or $0.669 per share during 2010, using Killam's definition of FFO implemented with the adoption of IFRS in 2011. The 4.3% growth in FFO per share was primarily attributable to the positive NOI contribution from acquisitions during 2010 and 2011 and same store property growth. Partially offsetting this growth was the increase in interest expense attributable to the convertible debentures and the costs of an oil remediation (see discussion in other income on page 45). The oil remediation and litigation costs of $0.4 million are considered non-recurring by management and are not reflective of the Killam's average cost to clean up oil spills. Excluding this expense, FFO per share in 2011 would have been $0.707 (an increase of 5.7% from 2010).



FFO Per Share Reconciliation

	FFO per share
FFO per share – 2010	**$0.669**
Acquisitions – Impact from 2010 and 2011 acquisitions.	**0.072**
Increased convertible debenture interest – Higher interest expense associated with the increased convertible debentures outstanding following the November 2010 and May 2011 capital raises.	**(0.049)**
Increase in weighted average shares outstanding – Killam completed two public share offerings in 2010 and 2011 to fund growth, including, 6.2 million shares in March 2010 and 3.7 million shares in November 2011.	**(0.035)**
Increased FFO from same store properties – Earnings associated with a 0.3% increase in NOI and a decrease in interest costs on mortgage debt.	**0.020**
Oil spill remediation and litigation costs – $0.4 million, and not representative of normal costs associated with an oil spill.	**(0.009)**
Decrease in amortization of deferred financing costs – 2010 included a $0.5 million write-off of unamortized deferred financing costs associated with Killam's redemption of its 6.5% convertible debentures in December 2010.	**0.007**
Increase attributable to property management fees earned, interest income and earnings on equity investments.	**0.007**
Other – including reduced provincial capital taxes, increased home sales and reduced depreciation.	**0.006**
Funds from operations	**$0.698**

Adjusted Funds from Operations

Adjusted Funds from Operations (AFFO) is a supplemental measure used by real estate analysts and some investors to represent the FFO after taking into consideration the capital spend related to maintaining the earning capacity of a portfolio. AFFO is a non-IFRS measure and 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 will lead to higher rents or more efficient operations.

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

For the years ended December 31,	**2011**	2010	% Change
Funds from operations	**$31,757**	$29,036	9.4%
Maintenance Capital Expenditures			
Apartments	**(4,538)**	(4,204)	7.9%
MHCs	**(929)**	(929)	—
Adjusted funds from operations	**$26,290**	$23,903	10.0%
AFFO/ share - basic	**$0.577**	$0.551	4.7%
AFFO/ share - diluted	**$0.572**	$0.547	4.6%
AFFO Payout Ratio - Basic (1)	**99%**	98%	↑100 bps

(1) 2011 based on Killam's annualized dividend of $0.56 for the period January-May and $0.58 for June-December. 2010 based on annualized dividend of $0.56.

Sources and Uses of Cash

Killam's cash flow from operations, financing and investing activities is summarized below:

For the year ended December 31,	**2011**	2010
Cash provided by operating activities	**$39,291**	$34,280
Cash provided by financing activities	**92,813**	68,855
Cash used in investing activities	**(105,673)**	(97,887)
Net increase in cash	**$26,431**	$5,248

Cash from operating activities increased by $5.0 million compared to 2010, as a result of the effect of acquisitions and changes in working capital.

Killam's net cash provided by financing activities increased $23.9 million. Net cash inflows of $46.0 million from the issuance of convertible subordinated debentures, $38.3 million from the issuance of 3.7 million shares under a prospectus offering, the issuance of shares on the exercise of options of $3.4 million, and the positive cash flow of $52.3 million from mortgage refinancings were offset by cash dividends of $23.1 million, regular principal debt payments of $17.2 million and deferred financing fees of $5.1million.

Cash used in investing activities was $105.7 million in 2011. A reconciliation of cash used in investing activities is shown below:

For the year ended December 31,	**2011**	2010
Acquisitions *(net of debt assumed)*	**$(65,297)**	$(79,857)
Equity investment	**(8,523)**	—
Distributions from equity investments	**168**	—
Capital improvements	**(18,046)**	(14,382)
Developments	**(9,859)**	(1,033)
Acquisition of non-controlling interest	**(381)**	(3,593)
Net cash used for capital assets	**$(101,938)**	$(98,865)
(Increase) decrease in restricted cash	**(3,735)**	978
Cash used in investing activities	**$(105,673)**	$(97,887)

Killam believes that cash generated by operations and refinancing of mortgages maturing in 2012 and 2013 will be sufficient to meet its anticipated cash requirements for operations, including dividend payments, regular principal repayments and capital requirements for the existing portfolio.

Consolidated Balance Sheet

Investment Properties

As at December 31,	**2011**	2010	% Change
Apartments	**$1,012,847**	$866,645	16.9%
MHCs	**231,747**	215,133	7.7%
Other	**2,051**	—	N/A%
Fair value	**$1,246,645**	$1,081,778	15.2%

Killam's investment properties were valued at $1.2 billion at December 31, up $164.9 million, or 15.2% from the fair value of $1.1 billion at December 31, 2010. The increased value of the properties is attributable to acquisitions of $96.0 million, capital investments of $17.5 million, transfer of a completed investment property of $4.7 million and a decrease in the weighted average Cap-Rates used to determine the fair market value of the apartment portfolio. These increases were offset by a transfer of vacant land in the amount of $5.4 million to Investment Properties Under Construction.

The key valuation assumption used to determine the fair market value, using the direct capitalization method, is the Cap-Rate for each property. A summary of the Cap-Rates used for each of December 31, 2011, December 31, 2010, and January 1, 2010 as provided by Killam's independent appraiser, are as follows:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Low	**High**	**Weighted Average**	Low	High	Weighted Average	Low	High	Weighted Average
Apartments	**5.50%**	**8.00%**	**6.19%**	5.70%	8.25%	6.47%	5.75%	8.75%	6.81%
MHCs	**6.50%**	**9.40%**	**7.28%**	6.75%	8.50%	7.47%	6.75%	8.75%	7.71%

As highlighted in the above chart, the weighted average Cap-Rate used to value the apartment properties decreased by 28 basis points from December 31, 2010 to December 31, 2011, reflecting an increased valuation for some properties. The Cap-Rates used to value the MHCs decreased 19 basis points from December 31, 2010. The chart above also highlights that there was Cap-Rate compression from January 1, 2010 to December 31, 2010 with the weighted average apartment rate decreasing 34 basis points in the period and MHC Cap-Rates decreasing 24 basis points.

The impact of a 10 basis point change in the Cap-Rate used to value the investment properties would affect the fair value as follows:

	December 31, 2011			December 31, 2010		
	Weighted Average	Increase	Decrease	Weighted Average	Increase	Decrease
Apartments	6.19%	$16,251	$16,785	6.47%	$12,949	$13,592
MHCs	7.28%	3,126	3,213	7.47%	2,832	2,914
Total		$19,377	$19,998		$15,781	$16,506

The impact of a 1% change in net operating income used to value the investment properties would affect the fair value as follows:

	December 31, 2011		December 31, 2010	
	Weighted Average	Change	Weighted Average	Change
Apartments	6.19%	$10,215	6.47%	$8,672
MHCs	7.28%	2,309	7.47%	2,147
Total		$12,524		$10,819

Continuity of Investment Properties

The following table summarizes the changes in value of Killam's investment properties for the years ended December 31, 2011 and 2010, highlighting the fair value adjustment that flows through the income statement for each period.

For the year ended December 31,	**2011**	2010
Balance, beginning of year	**$1,081,778**	$914,402
Acquisition of properties	**95,970**	114,454
Transfer to IPUC	**(5,373)**	—
Transfer from IPUC	**4,691**	—
Capital expenditures	**17,509**	13,824
Fair value adjustment - Apartments	**42,968**	35,118
Fair value adjustment - MHCs	**9,102**	3,980
Balance end of year	**$1,246,645**	$1,081,778

2011 Acquisitions – Investment Properties

Property	Location	Acquisition Date	Year Built	Units	Total
Apartments [(1)]					
25 McKnight Street	Fredericton	6-Jun-11	2001	64	$7,249
110 McKnight Street	Fredericton	6-Jun-11	1996	45	3,595
120 McKnight Street	Fredericton	6-Jun-11	1998	45	3,825
200 Reynolds Street	Fredericton	6-Jun-11	2001	52	6,280
300 Reynolds Street	Fredericton	6-Jun-11	2006	52	7,397
305 Reynolds Street	Fredericton	6-Jun-11	2010	52	7,834
Hestor & Church Street	Moncton	29-Jun-11	1993	64	4,280
155 Canaan Drive	Moncton	13-Jul-11	2008	48	5,629
115 Kedgwick Drive	Moncton	13-Jul-11	2009	25	2,303
133 Kedgwick Drive	Moncton	13-Jul-11	2010	23	2,303
Eagle Ridge Estates	Moncton	27-Jul-11	1994	59	6,041
135 Gould Street	Moncton	27-Jul-11	2011	69	8,931
Rutledge Manor	St. John's	24-Oct-11	1983	53	6,859
The Linden	Halifax	16-Dec-11	2011	81	16,024
					$88,552
Land for development					2,795
					$91,347
MHCs					
Milford Mini Home Park	Saint John	20-Dec-11		151	$2,532
Land for development					59
					$2,591
Other [(2)]					
3770 Kempt Road	Halifax	31-Oct-11		N/A	$2,032
Total Investment Property Acquisitions					**$95,970**

(1) *In addition to the apartments listed, Killam acquired a 25% interest in 180 Mill Street, a 127-unit property, in London Ontario for $8.5 million. The acquisition is included in Investments and accounted for using the equity method.*

(2) *Killam purchased a 50% interest in a two-building commercial complex in Halifax for $4.1 million. Killam's head office is the main tenant in one of the buildings and that building is included in Property and Equipment.*

Capital Improvements

Killam invests capital to maintain, and improve, the operating performance of its properties. During 2011, Killam invested a total of $17.5 million, compared to $13.8 million in 2010. Capital investments in the year are added to the book value of the investment properties to determine the fair value adjustment.

For the year ended December 31,	**2011**	2010	% Change
Apartments	**$12,569**	$8,856	41.9%
MHCs	**4,921**	4,968	(1.0)%
Other	**19**	—	N/A
Total	**$17,509**	$13,824	26.7%

Apartments

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

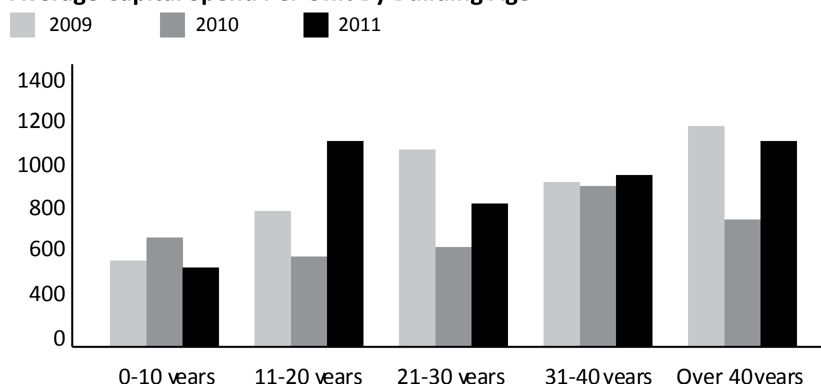
For the year ended December 31,	**2011**	2010	% Change
Building improvements	**$5,268**	$3,673	43.4%
Suite renovations	**3,270**	3,743	(12.6)%
Land improvements	**1,369**	10	N/A
Boilers and heating equipment	**1,268**	844	50.2%
Appliances	**542**	330	64.2%
Parking lots	**401**	—	N/A
Equipment	**326**	256	27.3%
Other	**125**	—	N/A
Total capital spend - Apartments	**$12,569**	$8,856	41.9%
Average units outstanding	**10,084**	9,346	7.9%
Capital spend per unit	**$1,246**	$948	31.4%

Management expects to spend between $800 and $900 in capital per apartment unit on an annual basis. In 2011, the average spend was $1,246 per unit, compared to $948 per apartment unit in 2010. The higher than normal capital spending in 2011 was attributable to irregular spending in the year, including $0.9 million in natural gas conversions in Nova Scotia, $0.9 million for extensive exterior wall restorations at one property, and $0.8 million on enhancements to existing properties adjacent, and in connection with, Killam's development S2 and The Plaza at Forest Hills. Excluding these expenditures, the capital spend on the apartment portfolio would have been approximately $8.7 million, or $855 per unit.

Management estimates that $450 per unit of the capital spending relates to maintenance capital, and the remainder relates to value enhancing upgrades. Maintenance capital relates to investments that are not expected to lead to an increase in the NOI, or increased efficiency, of a building; however they may extend the life of a building. Examples of maintenance capital include roof and structural repairs. Value enhancing upgrades are investments in the properties that are expected to result in higher rents and/or increased efficiencies. This includes unit and common area upgrades and energy investments, such as natural gas conversions.

The timing of capital spending may be influenced by tenant turnover, market conditions, and individual property requirements, causing annual variability in capital spending. In addition, the length of time that Killam has owned a property and the age of the property can influence the annual capital requirements. The following chart shows the average capital spent per unit for same store properties for each of the last three years. As the chart highlights, the capital spend per unit is less for newer properties. This analysis excludes capital spending on development and energy projects. The spending in 2011 was higher than normal for properties in the 11 to 20 age range due to $0.4 million in exterior wall repairs at two properties.

Average Capital Spend Per Unit By Building Age



MHCs

For the year ended December 31,	**2011**	2010	% Change
Water & sewer upgrades	**$3,077**	$3,189	(3.5)%
Roads and paving	**905**	327	176.7%
Equipment	**110**	134	(17.9)%
Other	**574**	733	(21.7)%
Windmills & solar panels	—	179	—%
Site expansions	**255**	406	(37.2)%
Total capital spend - MHCs	**$4,921**	$4,968	(1.0)%
Average units outstanding	**9,290**	9,290	—%
Capital spend per unit	**$530**	$535	(1.0)%

Management expects to spend between $300 and $400 in capital per MHC site on an annual basis. The higher than normal spending in the last two years was attributable to an extensive water and sewer upgrade at the Company's Silver Creek MHC in Orillia, Ontario. The $2.9 million upgrade over the last two years will allow for future expansion of an estimated 120 sites at the community. Increased investments in equipment (such as snow clearing equipment), which has resulted in a decrease in third party contracts, has also contributed to the capital spending over the last two years.

As with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and some is value enhancing. Management estimates that $100 per unit is maintenance capital, including costs to support the existing infrastructure, and the remaining increases the value of the properties, with improved roadways, ability to accommodate future expansion, and community enhancements, such as the addition of playgrounds. The cost of some capital projects, such as the water system upgrade at Silver Creek, will be recovered through above guideline increases in the provinces with rent control, leading to increased NOI for the investment. As with the apartment portfolio, the timing of capital spending changes on an annual basis based on requirements at each community.

Investment Properties under Construction

For the year ended December 31,	**2011**	2010
Balance, beginning of year	**$1,033**	$—
Capital expenditures	**9,667**	1,033
Transfer from investment properties	**5,373**	—
Transfer to investment properties	**(4,691)**	—
Interest capitalized	**192**	—
Fair value adjustment	—	—
Balance, end of year	**$11,574**	$1,033

Killam's investment properties under construction are recorded at fair value. At December 31, 2011 the fair value was equal to the costs attributable to the developments to-date, including land costs, development costs, realty taxes and borrowing costs attributable to the properties. Killam did not record any fair value adjustment associated with its development projects during 2011.

Killam's Investment Properties under Construction at December 31, 2011 are summarized as follows:

Project Name	Location	Units	Start Date	Expected Completion	Projected Cost	Investment to Date	% Complete
					($millions)	*($millions)*	
Charlotte Court - Phase II	Charlottetown, PE	47	Q3 2011	Q1 2013	$6.8	$0.7	12%
S2	Halifax, NS	63	Q2 2011	Q1 2013	14.4	2.4	17%
The Plaza at Forest Hills	Fredericton, NB	101	Q2 2011	Q1 2013	21.5	5.1	24%
Bennett House	St. John's, NL	71	Q4 2011	Q1 2013	15.1	1.6	11%
Total		282			$57.8		

The Plaza at Forest Hills is located adjacent Forest Hills Tower, a 151 unit building Killam owns in Fredericton, NB. In addition to $5.1 million invested in the new development, Killam has invested $0.3 million at the existing property to reconfigure the parking lot to allow for the development.

S2 is located adjacent Shaunslieve Apartments, a 154-unit building Killam owns in Halifax. In addition to $2.4 million invested on the new development, Killam has invested $2.8 million upgrading the existing building and altering the parking lot to allow for the new development. Upgrades to Shaunslieve Apartments will continue in 2012, as the building is repositioned to generate high rents.

Charlotte Court – Phase 2 is located adjacent Charlotte Court Phase 1, which was completed in 2011. The new building will be located at the site of an old apartment. The old building has been taken down in preparation for the construction of Phase 2 with some site servicing work completed. Construction of the new building will begin in Q1 2012.

During 2011, Killam purchased two parcels of land totaling 3.7 acres in St. John's, Newfoundland for $2.4 million. Bennett House is being built on the first parcel of land (1.1 acres). A second building is expected to be built on the second parcel of land starting in late 2012 or early 2013.

Third party contractors have been engaged to manage the development projects. Killam expects to have fixed price contracts for approximately 75% of the costs for each development, limiting the Company's exposure to cost overruns. To date the costs have been in-line with budgets and management is not anticipating any significant cost overruns.

Killam's development properties are funded with a combination of cash and debt. The first 25% of the cost is funded from cash. After the Company has invested 25% of the expected cost it can draw on variable rate construction loans. Post completion and an initial lease-up phase, Killam expects to put fixed-rate CMHC insured financing on the new buildings.

As at December 31, 2011 Killam did not have any debt directly attributable to the development properties.

Investments

For the year ended December 31,	**2011**	2010
Balance, beginning of year	**$—**	$—
Additions	**8,523**	—
Share of net income	**65**	—
Distributions received	**(168)**	—
Balance, end of year	**$8,420**	$—

Investments relate to Killam's 25% interest in an apartment building in Ontario. The investment is through the joint venture with KFH and is accounted for using the equity method.

Property & Equipment

As at	December 31, 2011		December 31, 2010	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$ 270**	**$ —**	$ —	$ —
Building	**1,762**	**—**	—	—
Heavy equipment	**761**	**215**	719	172
Vehicles	**1,067**	**191**	927	105
Furniture, fixtures and equipment	**2,701**	**1,698**	2,346	1,526
	6,561	**$2,104**	3,992	$1,803
Less: accumulated depreciation	**(2,104)**		(1,803)	
	$4,457		$2,189	

Land and building additions in 2011 represent the Company's acquisition of a 50% interest in the land and building which its head office occupies. Under IFRS, owner occupied property is required to be accounted for as property and equipment and not investment property.

Rent and Other Receivables

As at December 31,	**2011**	2010
Rent receivable	**$ 611**	$ 603
Insurance receivable	**191**	2,921
Other receivables	**904**	1,090
	$1,706	$4,614

Included in other receivables are accruals for laundry revenue, commission revenue associated with phone and cable revenue sharing and other non-rental income. The majority of these receivables are less than 60 days old.

The Company's policy is to write-off tenant receivables when the tenant vacates the unit and any subsequent receipt of funds is netted against bad debt. The Company's bad debt expense experience over the last number of years has been less than 0.4% of revenues. As a result of the low bad debt experience, no allowance for doubtful accounts is recorded in the accounts.

Pursuant to their respective terms, tenant receivables are aged as follows:

As at December 31,	**2011**	2010
0-30 days	**$295**	$401
31-60 days	**105**	80
61-90 days	**11**	5
Over 90 days	**200**	117
Total	**$611**	$603

Inventory

Killam's inventory balance was $1.0 million at December 31, 2011, compared to $1.6 million at December 31, 2010. The inventory balance represents manufactured homes for which sales have not closed at year-end, as well as a small number of stock homes. As at December 31, 2011, no amount of the inventory is pledged as collateral related to short-term or long-term financing.

Other Current Assets

As at December 31,	**2011**	2010
Prepaid property taxes	**$1,155**	$1,086
Prepaid insurance	**336**	297
Other prepaids	**867**	513
	$2,358	$1,896

Prepaids have increased as a result of an increase in the investment portfolio.

Mortgages and Debentures Payable

As at December 31,	**2011**	2010	% Change
Mortgages	**$637,362**	$569,680	11.9%
Vendor financing	**2,421**	4,689	(48.4)%
	639,783	574,369	11.4%
Less: deferred financing	**(9,568)**	(7,400)	29.3%
Total mortgages and vendor financing	**$630,215**	$566,969	11.2%
Convertible debentures	**$ 97,174**	$ 52,540	85.0%
Less: deferred financing	**(3,625)**	(2,163)	67.6%
Subordinated debentures	**9,917**	9,840	0.8%
Less: deferred financing	**(73)**	(147)	(50.3)%
	$103,393	$ 60,070	72.1%
Total debt	**$733,608**	$627,039	17.0%
Weighted average years to maturity of mortgage and vendor debt	**3.8**	4.0	
Gross mortgage and vendor debt as a percentage of total assets	**48.1%**	51.5%	
Total gross debt as a percentage of total assets	**56.2%**	57.0%	
Interest coverage ratio	**1.98x**	2.01x	
Debt service coverage ratio	**1.32x**	1.35x	
Weighted average interest rate of mortgage and vendor debt	**4.63%**	4.95%	
Weighted average interest rate of total debt	**4.94%**	5.17%	

The Company's long-term debt consists largely of fixed-rate, long-term mortgage financing. In certain cases the Company will also utilize vendor-take-back (VTB) mortgages as part of an acquisition. As at December 31, 2011, no mortgages or vendor debt had floating interest rates. Mortgages are secured by a first or second charge against the individual properties and the vendor financing is secured by a general corporate guarantee.

Mortgages and vendor financings payable increased from December 31, 2010 to December 31, 2011 due to acquisitions completed in 2011 ($61.2 million), mortgages placed on two unencumbered properties in the first quarter ($6.2 million) and net proceeds on the refinancing of maturing mortgages ($15.2 million), partially offset by regular principal repayments.

Killam's December 31, 2011 weighted average interest rate on mortgages improved to 4.63% compared to 4.95% as at December 31, 2010. The Company's weighted average years to maturity declined slightly to 3.8 years.

Total gross debt as a percentage of total assets decreased to 56.2% from 57.0% at December 31, 2010, due primarily to the issuance of 3,744,400 common shares for gross proceeds of $40.3 million and fair value increases on investment properties of $52.1 million, offset by the issuance of $46.0 million convertible debentures in June 2011. Management expects to maintain the ratio of debt to total assets between 55% and 65%. This ratio is sensitive to changes in the fair value of investment properties, in particular Cap-Rate changes. A 10 basis point increase in weighted average Cap-Rate as at December 31, 2011, would have increased the debt as a percentage of assets by 80 basis points.

2011 Refinancings

During the year ended December 31, 2011, Killam refinanced the following maturing mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Avg. Term	Net Proceeds
Apartments [1]	$46,375	5.57%	$61,603	3.28%	6.3 years	$15,228
MHCs [2]	5,316	5.38%	5,268	4.48%	5.0 years	(48)
	$51,691	5.55%	$66,871	3.38%		$15,180

(1) In addition, mortgages totaling $5.0 million were placed on a previously unencumbered property at a mortgage rate of 3.52% with an effective term to maturity of 5.0 years.

(2) In addition, a $1.2 million five-year mortgage was placed on a property that had been paid out at year-end 2010 at a rate of 5.11%.

The following table sets out the maturity dates and average interest rates of mortgage and vendor debt by the year of maturity:

	Apartments			MHCs		**Total**	
Year of Maturity	Balance Dec 31, 2011	Weighted Avg Int. Rate %	% CMHC Insured	Balance Dec 31, 2011	Weighted Avg Int. Rate %	**Balance Dec 31, 2011**	**Weighted Avg Int. Rate %**
2012	30,323	4.82	65.0	16,879	5.94	**$47,202**	**5.22**
2013	66,201	4.46	76.6	11,736	6.23	**77,937**	**4.86**
2014	135,769	4.45	51.2	18,463	5.59	**154,232**	**4.59**
2015	90,624	4.52	46.9	36,605	5.38	**127,229**	**4.76**
2016	104,178	4.18	53.9	18,713	5.22	**122,891**	**4.34**
2017	3,999	5.52	29.9	11,325	5.71	**15,324**	**5.66**
2018	7,389	4.87	100.0	-	-	**7,389**	**4.87**
2019	21,155	4.88	100.0	-	-	**21,155**	**4.88**
2020	19,331	4.08	100.0	-	-	**19,331**	**4.08**
2021	25,008	3.79	88.8	-	-	**25,008**	**3.79**
2022	12,500	3.09	8.5			**12,500**	**3.09**
Thereafter	9,585	5.15	100.0	-	-	**9,585**	**5.15**
	$526,062	4.40	60.9	$113,721	5.59	**$639,783**	**4.63**

As at December 31, 2011, approximately 61% of the Company's apartment mortgages were CMHC insured (51% of all mortgages) (December 31, 2010 – 56% and 45%, respectively). The weighted average interest rate on the CMHC insured mortgages was 4.13% as at December 31, 2011 (December 31, 2010– 4.41%).

The following table presents the NOI of properties that are available to Killam to refinance at debt maturity for 2012 and for 2013, as well as VTB debt maturing during 2012 and 2013.

	Number of Properties	**NOI (last 12 months)**	**Principal Balance (at maturity)**
2012			
Apartments with debt maturing in 2012	9	$3,928	$29,425
MHCs with debt maturing in 2012	10	2,588	16,429
2012 Debt Maturities	19	$6,516	$45,854
2013			
Apartments with debt maturing in 2013	17	$8,135	$62,512
MHCs with debt maturing in 2013	8	1,777	11,018
2013 Debt Maturities	25	$9,912	$73,530

Debentures

On November 30, 2010, the Company completed an offering of $57.5 million convertible unsecured subordinated debentures. The debentures mature November 30, 2017, bear interest at 5.65% and are convertible at the holders' option to common shares at a price of $13.40. The Debentures are redeemable at the option of the Company after November 30, 2013 and on or before November 30, 2015, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price. After November 30, 2015, the debentures are redeemable at face value. Upon maturity or redemption, the Company may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing).

In conjunction with the issuance of the convertible debentures noted previously, on December 13, 2010, the Company redeemed its outstanding $42.2 million convertible debentures bearing interest at 6.50% which were to mature in May 2012. The debentures were redeemed at face value.

On June 2, 2011, the Company completed an offering of $46.0 million convertible unsecured subordinated debentures. The debentures mature June 30, 2018, bear interest at 5.45% and are convertible at the holders' option to common shares at a price of $14.60. The Debentures are redeemable at the option of the Company after June 30, 2014 and on or before June 30, 2016, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price. After June 30, 2016, the debentures are redeemable at face value. Upon maturity or redemption, the Company may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing).

The Company's $10.0 million of unsecured subordinated debentures and related warrants consist of three tranches of $2.5 million, $2.5 million, and $5.0 million, bearing interest at 5.92%, 6.06% and 6.33%, respectively. The associated warrants are exercisable at $14.40, $15.20 and $12.24, respectively. The debentures and warrants mature and expire on January 4, 2013.

Credit Facility

The Company has a credit facility with a major financial institution that can be used to finance the Company's on-going acquisition program. The amount available under the revolving facility varies with the value of pledged assets, to a maximum of $15 million. The facility includes the option for a commitment increase, allowing Killam a one-time opportunity to increase the credit limit to $40 million. The interest rate on the debt is prime plus 175 basis points on prime rate advances or 275 basis points over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at December 31, 2011 the Company had assets with a fair value of $1.7 million pledged to the line and had a balance outstanding of $Nil. This facility expires in May 2012.

Shareholders' Equity

On November 30, 2011, Killam completed a public share offering, on a bought deal basis, of 3,256,000 shares, to the public at a price of $10.75 per share for gross proceeds of $35.0 million. On December 6, 2011, the Company closed the sale of an additional 488,400 common shares for gross proceeds of $5.25 million pursuant to an over-allotment option with the underwriters.

Killam pays a dividend of $0.04833 per share per month. The monthly dividend was increased from $0.04668 per share effective for the June 2011 dividend.

The Company's Dividend Reinvestment Plan ("DRIP") allows shareholders to elect to have all cash dividends from the Company reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to a ten-day volume weighted average price of the Company's common shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration. For the year ended December 31, 2011, the Company issued 284,843 common shares under the DRIP with a value of 3.0 million (2010 – 145,801common shares with a value of $1.3 million). For the year ended December 31, 2011 the average DRIP participation rate was approximately 12%.

Quarterly Results & Discussion of Q4 Operations

Summary of quarterly results

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

	2011				2010			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Property revenue	**$32,484**	**$33,052**	**$30,267**	**$29,598**	$29,671	$30,261	$28,393	$26,528
Operating expenses	**13,196**	**11,857**	**12,048**	**12,636**	12,333	10,629	10,361	11,070
Operating expense %	**40.6%**	**35.9%**	**39.8%**	**42.7%**	41.6%	35.1%	36.5%	41.7%
Home sale income	**179**	**250**	**121**	**(64)**	62	170	52	119
Other income	**(126)**	**214**	**199**	**148**	202	119	126	100
NOI	**19,341**	**21,659**	**18,899**	**17,046**	17,602	19,921	18,210	15,677
Net income applicable to common shareholders	**12,608**	**19,747**	**18,043**	**15,567**	16,246	23,555	7,611	6,374
Per share basic	**0.27**	**0.43**	**0.40**	**0.35**	0.36	0.53	0.17	0.16
Funds from operations	**7,549**	**9,784**	**7,896**	**6,528**	6,098	9,263	7,872	5,803
Per share basic	**0.161**	**0.216**	**0.175**	**0.145**	0.136	0.207	0.176	0.149

Q4 - Consolidated Statements of Income

In thousands (except per share amounts)

For the three months ended December 31,	**2011**	2010
Property revenue	**$32,484**	$29,671
Property operating expenses	**(13,196)**	(12,333)
Home sales	**179**	62
Other income	**(126)**	202
	19,341	17,602
Long-term debt interest	**9,031**	8,230
Depreciation	**53**	116
Amortization of deferred financing	**406**	786
General and administrative	**1,992**	2,023
Provincial capital taxes	**42**	92
Interest and bank charges	**52**	58
	11,576	11,305
Income before fair value gains and income taxes	**7,765**	6,297
Fair value gains	**8,918**	14,195
Income before income taxes	**16,683**	20,492
Deferred tax expense	**(3,879)**	(4,105)
Net income	**$12,804**	$16,387
Net income attributable to:		
Common Shareholders	**$12,608**	$16,246
Non-controlling interests	**196**	141
	$12,804	$16,387

Q4 Apartments – Same Store

For the 3 months ended December 31,		**2011**		2010	% Change
Property revenue		**$21,256**		$20,786	2.3%
Property expenses					
Operating expenses	***17.7%***	**3,771**	*18.3%*	3,805	(0.9)%
Utility and fuel expenses	***13.9%***	**2,951**	*13.5%*	2,811	5.0%
Property taxes	***11.5%***	**2,440**	*11.3%*	2,351	3.8%
Total property expenses	***43.1%***	**9,162**	*43.1%*	8,967	2.2%
Net operating income		**$12,094**		$11,819	2.3%

Q4 MHCs – Same Store

For the 3 months ended December 31,		**2011**		2010	% Change
Property revenue		**$6,169**		$6,047	2.0%
Property expenses					
Operating expenses	***21.9%***	**1,353**	*22.0%*	1,332	1.6%
Utility and fuel expenses	***9.2%***	**567**	*9.8%*	595	(4.7)%
Property taxes	***5.6%***	**342**	*6.3%*	377	(9.3)%
Total property expenses	***36.7%***	**2,262**	*38.1%*	2,304	(1.8)%
Net operating income		**$3,907**		$3,743	4.4%

Q4 FFO

For the 3 months ended December 31,	**2011**	2010	% Change
Net income	**$12,804**	$16,387	
Fair value gains	**(8,918)**	(14,195)	
Non-controlling interest *(before tax and gains)*	**(216)**	(199)	
Deferred tax expense	**3,879**	4,105	
Funds from operations	**$7,549**	$6,098	23.8%
FFO/share - basic	**$0.161**	$0.136	18.4%
FFO/share – diluted	**$0.160**	$0.135	18.5%
Weighted average shares – basic (000's)	**46,728**	44,927	4.0%
Weighted average shares – diluted (000's) [1]	**47,153**	45,271	4.2%

(1)The calculation of weighted average shares outstanding for diluted FFO purposes excludes the convertible debentures as they are anti-dilutive.

Killam earned FFO of $0.161 per share during the fourth quarter, compared $0.136 per share during the fourth quarter of 2010. The 18.4% increase was primarily attributable to the positive impact of both 2010 and 2011 acquisitions and the increased earnings associated with the Company's same store properties, up 2.8% in the quarter, partially offset by increased convertible debenture interest and an increase in the amount of shares outstanding.

Apartment occupancy levels decreased during the fourth quarter due primarily to softness in the Moncton market following an increase in new rental construction in the city, and increased turnover in more price sensitive properties in Dartmouth and Saint John following rental increase programs in the second half of the year. Demand has remained consistent at the majority of Killam's core apartment markets. Killam has experienced a reduction in occupancy at its MHCs, from 98.8% at December 31, 2010 to 98.3% at December 31, 2011. The change in occupancy is the result of a reduction in sites rented by third party retailers who were paying rent to reserve sites for future home sales, and increased vacancy at three communities in rural Atlantic Canada.

Impacting Killam's 2011 fourth quarter results was a $0.4 million expense related to the remediation of an oil spill at one of the Company's MHCs in Ontario. A lawsuit has been initiated against the tenant and the tenant's oil supplier to recover the cost, however, given the uncertainty inherent in litigation, the decision was made to record the cost in 2011. Any proceeds from the lawsuit will be recorded when received. The size of the expense is not representative of regular clean-up costs, which typically cost approximately $30,000. Excluding this non-recurring expense, FFO per share would have been $0.170 in the quarter.

Q4 – FFO Reconciliation

	FFO per share
FFO per share – Q4 2010	**$0.136**
Acquisitions & developments - Change in earnings from 2010 and 2011 acquisitions and the operations of Killam's first development project.	**0.023**
Increased FFO from same store properties - due to 2.8% increased NOI and decrease in interest costs.	**0.016**
Increased convertible debenture interest - Higher interest expense associated with the increased convertible debentures outstanding following the May 2011 capital raise.	**(0.015)**
Oil spill remediation and litigation costs. - $0.4 million, not representative of normal costs associated with an oil spill.	**(0.009)**
Decrease in amortization of deferred financing costs - Q4 2010 included a $0.5 million write-off of unamortized deferred financing costs associated with Killam's redemption of its 6.5% convertible debentures in December 2010.	**0.008**
Increase in weighted average shares outstanding - Killam completed public share offerings of 3.7 million shares in November 2011.	**(0.002)**
Other	**0.004**
FFO per share – Q4 2011	**$0.161**

Risk Management

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

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

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

Killam is exposed to other risks, as outlined below:

Interest Rate Risk

Interest risk is the risk that the Company would experience a loss as the result of its exposure to a higher interest rate environment. Killam manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates of its mortgage, thus reducing exposure to any short-term fluctuations in rates. The maturity dates of Killam's mortgages are summarized on page 58 of the MD&A. In 2011 Killam increased the amount of 10-year mortgages, reducing the company's exposure to increased interest rates in the short and medium term.

Liquidity Risk

Liquidity risk is the risk that the Company may not have access to sufficient debt and equity capital to fund its growth program and/or refinance its debt obligations as they mature. Cash flow generated from operations is the primary source of liquidity used to service the interest on debt, fund expenses and capital requirements and support the dividend payment. Debt repayment requirements are primarily funded from refinancing the Company's maturing debt obligations. Property acquisitions and development are primarily funded through a combination of mortgage debt and capital raised through the capital markets. To mitigate against the risk associated with refinancing the Company's mortgage debt, the Company uses CMHC insured mortgages for apartment financings and has relationships with a diversified base of lenders.

Increased Supply Risk

Increased supply risk is the risk of loss from increased competition from the addition of new rental units in Killam's core markets. Numerous other residential developers and apartment owners compete for potential tenants. Although it is Killam's strategy to own multi-family residential properties in premier locations in each market in which it operates, some of the apartments or MHCs of Killam's competitors may be newer, better located or offer lower rents. An increase in alternative housing could have a material adverse effect on Killam's ability to lease units and in 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 of Atlantic Canada.

Credit Risk

Credit risk relates to the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The Company currently has over 19,000 rental units spread over eight provinces, each of which has a separate legal lease and therefore has no material exposure to any particular tenant or group of tenants. In addition, thorough credit assessments are conducted with respect to all new leasing and the Company also obtains a security deposit to assist in potential recovery requirements.

Development Risk

Development risk is the risk that costs of developments will exceed original estimates, unforeseen delays occur and/or units will not be lease in the timeframe and/or at rents anticipated. Killam minimizes its exposure to development risk my limiting the amount of development underway at any one time. To reduce the Company's exposure to price increases, Killam enters into fixed rate contracts when possible. To reduce the lease-up risk, Killam does extensive market research in advance of each development to support expected rental rates, and pre-markets 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 the Company 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 the Company's ability to borrowing using the property as collateral or sell the real estate. Killam is not aware of any material non-compliance with environmental laws at any of its properties. The Company 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 the Company may become subject to more stringent environmental laws and regulations in the future. The Company 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.

General Uninsured Losses

Killam carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar companies. There are, however, certain types of risks (generally of a catastrophic nature) that are either uninsurable or not 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 Killam operates, which may have an adverse impact on the Company's operations. Currently Prince Edward Island, Ontario, and British Columbia are the only provinces in which the Company operates that have rent controls. During 2010 the Government of Nova Scotia announced plans to introduce a rental increase formula for MHCs, which is expected to be implemented in 2012.

Utility and Property Tax Risk

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

Taxes

Killam is currently not cash tax taxable due to its ability to reduce taxable income through unclaimed CCA available, and does not expect to be cash taxable for at least the next two to three years. A change in circumstances that could result in the Company paying cash taxes in advance of this estimate could have a negative impact on Killam's liquidity. To mitigate against this risk, Killam is working with tax advisors to identify any issues that could impact a change in the Company's tax situation.

Dividend Payments

Dividend payments may exceed actual cash available from time to time because of items such as principal repayments, capital requirements and redemption of shares, if any. The Corporation may be required to use part of its debt capacity, to raise additional equity or to reduce dividends in order to accommodate such items, and there can be no assurance that funds from such sources will be available on favourable terms, or at all.

Adoption of IFRS

On January 1, 2011 all public reporting companies in Canada were required to adopt International Financial Reporting Standards (IFRS). All financial information reported in this MD&A is presented under IFRS (including all comparative 2010 information).

Impact of Adoption of IFRS

Killam has adopted IFRS effective January 1, 2010 (the transition date) and has prepared its opening balance sheet as at that date. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with previous Canadian GAAP. The Company's consolidated financial statements for the year ended December 31, 2011 are the first annual financial statements that comply with IFRS.

IFRS is premised on a conceptual framework similar to previous Canadian GAAP, however, there are significant differences in certain matters of recognition, measurement, presentation and disclosures. While the adoption of IFRS did not have an impact on Killam's reported net cash flows, it did have a material impact on the Company's consolidated balance sheets and statements of income.

Balance Sheet Impact

The most significant balance sheet impact relates to the valuation of Killam's apartment and MHC properties to reflect fair value. Killam's apartment and MHC properties are considered "Investment Property" under IFRS. Investment property is defined as property held to earn rental income or for capital appreciation or both. Killam elected to measure its investment properties using the fair value model. Under the fair value model, the investment property is carried at fair value on one line on the balance sheet. Investment Properties are not amortized and changes in fair value are reported through earnings in each reporting period. This varies from previous Canadian GAAP, where real estate properties were recorded at cost and amortized over their useful lives.

The impact of this accounting change resulted in a $207.1 million increase in the value of Killam's investment properties at the opening IFRS balance sheet date of January 1, 2010, a 29% increase above the carrying value under previous Canadian GAAP at December 31, 2009. Management engaged an accredited national appraisal firm (the "external valuator") to evaluate the fair value of the Company's investment properties held as at January 1, 2010. Under IFRS, straight-line rent, direct leasing costs and incentive balances are included in the carrying amount of income properties and the intangible assets and liabilities established under previous Canadian GAAP in connection with business combinations are no longer separately recognized. This change resulted in the elimination of intangible assets previously recorded on the Company's balance sheet.

The implementation of IFRS has also changed Killam's accounting for the two properties (Garden Park Apartments and Blackshire Apartments) in which it has less than 100% ownership. Previously, Killam accounted for these assets using proportionate consolidation. Under IFRS these assets are fully consolidated, with non-controlling interest representing that portion of profit or loss and net assets not owned by Killam.

The Company's accounting for stock options was also impacted by the change to IFRS. The change resulted in $0.2 million increase in contributed surplus.

These changes to the opening balance sheet required a corresponding tax adjustment. The tax adjustment resulted in a $32.5 million increase in the Company's future income tax liability as at January 1, 2010 compared to December 31, 2009 under previous Canadian GAAP.

The net difference of these adjustments flowed through Shareholders' Equity, which increased by $154.6 million at the transition date. Killam's previous retained earnings deficit of $70.3 million at December 31, 2009 was adjusted by $154.9 million, resulting in positive retained earnings of $84.6 million under IFRS as at January 1, 2010, and the addition of $15.5 million in non-controlling interest.

Income Statement Impact

In adopting IFRS, Killam restated its 2010 income statement using IFRS. The accounting changes resulted in net income based on IFRS of $54.4 million for the year ended December 31, 2010, compared to a net loss of $0.1 million under previous Canadian GAAP. This change was primarily attributable to a $39.1 million fair value gain related to Killam's investment properties and a $28.9 million reduction in depreciation expense, as investment properties are no longer depreciated. These positive adjustments were partially offset by a $14.3 million increase in future income tax expense. Income from property operations, and its components, where increased slightly on the restatement due to the change in accounting for Garden Park and Blackshire Apartments using full consolidation and non-controlling interest versus proportionate consolidation. The other change in the 2010 IFRS income statement compared to the previously released statements relates to a $0.1 million increase in general and administrative expense relating to changes in the expensing of stock options.

Valuation of investment properties

As previously noted, management engaged an accredited national appraisal firm to provide a full independent appraisal of the Company's complete property portfolio as at January 1, 2010. The external valuator used the direct capitalization income approach to value the Company's investment properties. Under this method, Cap-Rates are applied to a standardized NOI representing market based assumptions. The Cap-Rate assumption has the most significant impact on the valuation for each specific property. A summary of the Cap-Rate ranges for each geographic area at January 1, 2010 are presented in Note 6 to the consolidated financial statements.

Valuation Process After January 1, 2010

The Company's real estate valuation strategy and process for periods after the initial recognition of fair market value as at January 1, 2010 includes the following:

(i) Approximately 20% of the portfolio is valued by an external valuator on an annual basis. The properties included in the third party valuation are primarily those with mortgages maturing within the next fiscal year, however, management ensures that a fair representation of the portfolio is included in the group of assets appraised externally on an annual basis, considering property size, quality and geography.

(ii) Those assets not appraised by an external valuator are valued internally by management using a similar valuation process as used by the external party.

(iii) Cap-Rates used for the internally generated valuation are supplied by the external valuator on a quarterly basis.

Management adjusts standardized NOI assumptions on a quarterly basis to consider any significant changes in operations. To the extent that changes in Cap-Rates or NOI assumptions change the fair value of the investment properties from one period to the next, the fair value of investment properties increases or decreases accordingly, with the change impacting the fair value adjustment line of the income statement.

Earnings Volatility to Increase with IFRS

Management anticipates the adoption of IFRS, and the related measurement of investment properties using fair value, may lead to increased volatility in the reported numbers in its financial statements.

Each quarter the properties are revalued using the direct capitalization income approach, as described above. In an environment of decreasing Cap-Rates, the fair value of Killam's investment properties are expected to increase (assuming consistent NOI assumptions). A 10 basis point decrease in cap-rates could lead to a $17 million increase in the value of the assets. This increase would flow through the income statement under the line item fair value gains, leading to higher reported net income. In an environment of increasing Cap-Rates the value of Killam's investment properties are expected to decrease (assuming consistent NOI assumptions) and this decrease would also flow through the income statement as a fair value loss, resulting in lower reported net income. A change in Cap-Rates quarter-over-quarter or year-over-year will add volatility to Killam's earnings.

In addition to this change in income or loss, Killam's asset balance will increase or decreases based on the external Cap-Rate environment. This will impact the asset balance, and certain balance sheet related debt ratios, on a quarterly and annual basis.

Killam's Key Performance Indicators (KPIs)

As detailed on page 25, Management focuses on a number of key performance indicators (KPIs) to measure performance. The following KPI was the only one impacted by the change to IFRS:

Debt to Total Assets – Killam had traditionally measured its debt levels as a percentage of the gross book value of assets and worked to ensure that the debt remained at a conservative level. Recording Investment Properties at fair value under IFRS will have an impact on this KPI. In an environment of rising property values (and lower Cap-Rates) Killam's ratio of debt to total assets will decrease. The ratio would increase in an environment of decreasing property values (higher Cap-Rates). Management recognizes that this KPI measure will fluctuate based on changes in Cap-Rates and does not expect to increase or decrease leverage in direct response to these changes. In addition, management will continue to focus on interest and debt service coverage ratios, as these measures are consistent regardless of changes in fair value of investment properties.

Elections Applied in Adopting IFRS

In preparing these consolidated financial statements in accordance with IFRS 1, "First Time Adoption of International Financial Reporting Standards" ("IFRS 1"), the Company has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of IFRS. These exemptions are fully described in Note 4 to the consolidated financial statements.

Significant Accounting Judgments, Estimates and Assumptions

The Company's accounting policies are described in Note 2 of the consolidated financial statements. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions. The significant areas of judgments, estimates and assumptions are set out in Note 3 of the consolidated financial statements. The most significant estimates relate to the fair value of investment properties and deferred taxes.

Investment Properties

The Company's accounting policies relating to investment properties are described in Note 2(F). In applying this policy, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under construction, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the investment property under construction. Judgment is also applied in determining the extent and frequency of independent appraisals.

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

Investment property under construction ("IPUC") is also valued at fair value, except if such values cannot be reliably determined. In the exceptional case when a fair value cannot be reliably determined, such property is recorded at cost. The fair value of IPUC is determined using either the Discounted Cash Flow Method or the Residual Method.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets and Cap-Rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of IPUC. These estimates are based on local market conditions existing at the reporting date. In arriving at their estimates of market values, the external valuator and management use their market knowledge and professional judgement and do not rely solely on historical transaction comparables. In these circumstances, there is a greater degree of uncertainty than which exists in a more active market in estimating the fair values of investment property. The critical estimates and assumptions underlying the valuation of investment properties and developments are set out in Note 6 to the consolidated financial statements.

Taxes

The Company is subject to income and capital gains taxes in numerous jurisdictions. Significant judgment is required to determine the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain. In particular, when calculating deferred taxation, the effective tax rate applicable on the temporary differences in investment property depends on the method by which the carrying amount of investment property will be realised. The Company recognises liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. Deferred tax assets and liabilities are recognised on a net basis to the extent they are relating to the same fiscal entity and fall due in approximately the same period. Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Future Accounting Policy Changes

IFRS 7 – Financial Instruments Disclosure

IFRS 7, "Financial Instruments: Disclosures", has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company is currently evaluating the impact of this amendment.

IFRS 9 - Financial Instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 10 - Consolidated Financial Statements

On May 12, 2011, the IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), which will replace IAS 27, "Consolidated and Separate Financial Statements" and SIC-12, "Consolidation – Special Purpose Entities". The new standard provides a single model for consolidation based on control, which exists when an investor is exposed or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. The standard also provides guidance on how to evaluate power and requires that control is assessed as facts and circumstances change. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is currently evaluating the impact of this amendment.

IFRS 11 - Joint Arrangements

On May 12, 2011, the IASB issued IFRS 11 "Joint Arrangements". This new standard replaces IAS 31 – Interests in Joint Ventures. "Joint Arrangements", applies when accounting for interests where there is joint control. Joint ventures would be classified either as joint operations or joint ventures, and the structure of the arrangement would no longer be the most significant factor when determining this classification. In addition, the standard would remove the option to proportionately consolidate the joint venture, and would require instead the use of the equity method of accounting. This new standard is effective for the Company's year-end beginning January 1, 2013. The Company is currently evaluating the impact of this amendment.

IFRS 12 - Disclosure of Interests in Other Entities

The IASB issued IFRS 12, "Disclosure of Interests in Other Entities" on May 12, 2011. The standard includes disclosure requirements about subsidiaries, joint ventures, and associates, replacing existing requirements. Additional disclosures include judgments and assumptions made in determining how to classify involvement with another entity, interests that non-controlling interests have in the consolidated entities, and the nature and risks associated with interests in other entities. IAS 28 has been amended and will provide the accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is currently evaluating the impact of this amendment.

IFRS 13 - Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is permitted or required by IFRS. The standard also requires enhanced disclosures when fair value is applied. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of this amendment.

IAS 1 - Presentation of Financial Statements

IAS 1 was amended in 2011 to expand on the disclosures required of items within Other Comprehensive Income. The revised standard requires that an entity distinguishes between those items that are recycled to profit and loss versus those items that are not recycled. Retrospective application is required and the standard is effective for annual periods beginning on or after July 1, 2012. The Company does not expect the amendments to IAS 1 to have a significant impact on its consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Corporation'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 the Corporation have been detected.

Disclosure Controls and Procedures

As of December 31, 2011, the Company's management evaluated the effectiveness of the operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer.

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

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

Internal Controls over Financial Reporting

Internal controls over financial reporting (ICFR) are designed to provide reasonable assurance regarding the reliability of the Company'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 the Company'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".

Management has identified certain areas where it can enhance process controls and intends to incorporate such enhancements into the ICFR over the next twelve months. The Company employs entity level controls to compensate for any deficiencies that may exist.

As of the financial year ended December 31, 2011, the certifying officers have evaluated the design and effectiveness of such ICFR, or caused them to be designed and evaluated under their supervision. The certifying officers have concluded that the design and effectiveness of ICFR were operating effectively as at December 31, 2011, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The certifying officers have evaluated whether there were any changes to the Company's ICFR during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect its ICFR. No changes were identified through their evaluation.

Subsequent Events

Subsequent to December 31, 2011, the Company has refinanced $7.6 million of maturing apartment debt for net proceeds of $0.8 million. The previous weighted average interest rate was 4.63% and the interest rate on the new debt is 2.38%. In addition, the Company repaid a $0.9 million vendor mortgage bearing interest at 5.0%.

Subsequent to December 31, 2011, the Company acquired a 43-unit apartment building (with 14,482 square feet of commercial space) in Halifax, NS. The purchase price of $13.8 million was satisfied by the assumption of a $7.7 million mortgage bearing interest at 5.91% with the balance in cash.

Subsequent to December 31, 2011, Killam has agreed to acquire a 240-unit, three building apartment complex in Halifax, NS. The purchase price of $19.2 million is expected to be satisfied with a new CMHC mortgage of approximately $14.0 million with the balance in cash.

On January 17, 2012 and February 16, 2012, the Company announced dividends of $0.04833 per share, payable on February 15, 2012 and March 15, 2012 respectively, to shareholders of record on January 31, 2012 and February 29, 2012, respectively.

Management's Report and Auditors' Report

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and management's discussion and analysis of results of operations and financial condition (MD&A) have been prepared by the management of Killam Properties Inc. in accordance with International Financial Reporting Standards, and include amounts based on management's informed judgements and estimates. Management is responsible for the integrity and objectivity of these consolidated financial statements. The financial information presented in the MD&A is consistent with that in the consolidated financial statements in all material respects.

To assist management in the discharge of these responsibilities, management has established the necessary internal controls designed to ensure that our financial records are reliable for preparing financial statements and other financial information, transactions are properly authorized and recorded, and assets are safeguarded.

As at December 31, 2011, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

Ernst & Young LLP, the auditors appointed by the Shareholders, have examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Shareholders their opinion on the consolidated financial statements. Their report as auditors is set forth below.

Directors and its Audit Committee. This committee meets regularly with management and the auditors, who have full and free access to the Audit Committee.

March 6, 2012

Philip Fraser
President and Chief Executive Officer

Robert Richardson
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Killam Properties Inc.

We have audited the accompanying consolidated financial statements of Killam Properties Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011 and 2010 and January 1, 2010 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Killam Properties Inc. and its subsidiaries as at December 31, 2011 and 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Halifax, Canada
March 6, 2012

Consolidated Balance Sheets

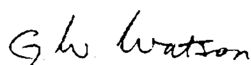
In thousands

As at

	December 31, 2011	December 31, 2010	January 1, 2010
		(note 4c)	*(note 4c)*
ASSETS			
Non-current assets			
Investment properties *(note 6)*	$1,246,645	$1,081,778	$914,402
Investment properties under construction *(note 7)*	11,574	1,033	0
Investments *(note 8)*	8,420	0	0
Property and equipment *(note 9)*	4,457	2,189	2,014
Other non-current assets	62	61	84
	1,271,158	1,085,061	916,500
Current assets			
Cash *(note 10)*	43,348	16,917	11,669
Restricted cash *(note 10)*	9,913	6,178	7,156
Rent and other receivables *(note 11)*	1,706	4,614	2,425
Income tax receivable	88	37	400
Inventory *(note 12)*	960	1,630	2,116
Other current assets *(note 13)*	2,358	1,896	1,654
	58,373	31,272	25,420
TOTAL ASSETS	$1,329,531	$1,116,333	$941,920
EQUITY and LIABILITIES			
Shareholders' equity	$501,005	$415,108	$331,834
Non-controlling interests	11,538	11,933	15,482
Total Equity	512,543	427,041	347,316
Non-current liabilities			
Mortgages and loans payable *(note 15)*	565,683	501,818	439,132
Convertible debentures *(note 16)*	93,549	50,377	40,822
Subordinated debentures *(note 17)*	9,844	9,693	9,552
Other liabilities *(note 18)*	2,682	607	646
Deferred tax *(note 24)*	65,139	47,137	31,841
	736,897	609,632	521,993
Current liabilities			
Mortgages and loans payable *(note 15)*	64,532	65,151	61,030
Other liabilities *(note 18)*	255	39	39
Security deposits	3,314	3,107	2,211
Accounts payable and accrued liabilities *(note 14)*	11,990	11,363	9,331
	80,091	79,660	72,611
Total Liabilities	816,988	689,292	594,604
TOTAL EQUITY and LIABILITIES	$1,329,531	$1,116,333	$941,920

See accompanying notes

On behalf of the Board



G. Wayne Watson, Director

Philip Fraser, Director

Consolidated Statements of Income

In thousands (except per share amounts)

For the year ended December 31,

	2011	2010
		(note 4d)
Property revenue	$125,761	$114,853
Property operating expenses	(49,737)	(44,393)
Home sales *(note 22)*	486	403
Other income	435	547
	76,945	71,410
Long-term debt interest *(note 23)*	34,670	31,352
Depreciation	301	383
Amortization of deferred financing	1,410	1,731
General and administrative	7,542	7,545
Provincial capital taxes	130	220
Interest and bank charges	221	258
	44,274	41,489
Income before fair value gains and income taxes	32,671	29,921
Fair value gains *(note 6)*	52,070	39,098
Income before income taxes	84,741	69,019
Deferred tax expense *(note 24)*	(17,920)	(14,611)
Net income	$66,821	$54,408
Net income attributable to:		
Common shareholders	$65,965	$53,786
Non-controlling interests	856	622
	$66,821	$54,408
Net income per share attributable to common shareholders		
– basic	$1.45	$1.24
– diluted	$1.34	$1.19

See accompanying notes

Consolidated Statements of Comprehensive Income

In thousands

For the year ended December 31,

	2011	2010
Net income	$66,821	$54,408
Fair value of fuel hedges, net of tax	—	15
Comprehensive income	$66,821	$54,423
Comprehensive income attributable to:		
Common shareholders	$65,965	$53,801
Non-controlling interests	856	622
	$66,821	$54,423

Consolidated Statements of Changes in Equity

In thousands

Year ended December 31, 2011

	Capital Stock	Contributed Surplus	Other Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Non-Controlling Interests	Total Equity
At January 1, 2011	$293,966	$2,637	$4,271	—	$114,234	$11,933	$427,041
Comprehensive income	—	—	—	—	65,965	856	66,821
Dividends declared and paid	—	—	—	—	(23,901)	—	(23,901)
Dividends payable	—	—	—	—	(2,389)	—	(2,389)
Issuance of convertible debenture	—	—	1,410	—	—	—	1,410
Acquisition of non-controlling interest	—	—	—	—	(14)	(375)	(389)
Distributions to non-controlling interest	—	—	—	—	—	(876)	(876)
Issuance of shares for cash	3 8,299	—	—	—	—	—	38,299
Dividend reinvestment plan	2,976	—	—	—	—	—	2,976
Stock options exercised	3,441	(962)	—	—	—	—	2,479
Tax benefit of share issue costs	496	—	—	—	—	—	496
Stock based compensation	—	576				—	576
At December 31, 2011	$339,178	$2,251	$5,681	—	$153,895	$11,538	$512,543

Year ended December 31, 2010

	Capital Stock	Contributed Surplus	Other Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Non-Controlling Interests	Total Equity
At January 1, 2010 *(note 4)*	$243,205	$2,090	$1,908	($15)	$84,646	$15,482	$347,316
Comprehensive income	—	—	—	15	53,786	622	54,423
Dividends declared and paid	—	—	—	—	(22,465)	—	(22,465)
Dividends payable	—	—	—	—	(2,102)	—	(2,102)
Redemption of convertible debenture	—	—	(2,437)	—	659	—	(1,778)
Issuance of convertible debenture	—	—	4,800	—	—	—	4,800
Acquisition of non-controlling interest	—	—	—	—	(290)	(3,305)	(3,595)
Distributions to non-controlling interest	—	—	—	—	—	(866)	(866)
Issuance of shares for cash	48,153	—	—	—	—	—	48,153
Dividend reinvestment plan	1,335	—	—	—	—	—	1,335
Stock options exercised	558	(36)	—	—	—	—	522
Tax benefit of share issue costs	715	—	—	—	—	—	715
Stock based compensation	—	583	—	—	—	—	583
At December 31, 2010	$293,966	$2,637	$4,271	—	$114,234	$11,933	$427,041

Consolidated Statements of Cash Flows

In thousands

For the year ended December 31,

	2011	2010
OPERATING ACTIVITIES		
Net income	$66,821	$54,408
Add (deduct) items not affecting cash		
Fair value gains	(52,070)	(39,098)
Depreciation and amortization	1,711	2,114
Non-cash debenture interest	782	360
Non-cash compensation expense	576	583
Equity income	(65)	—
Other non-cash items	(129)	—
Deferred income taxes	17,920	14,611
Net change in non-cash working capital		
items related to operations	3,745	1,302
Cash provided by operating activities	39,291	34,280
FINANCING ACTIVITIES		
Increase in deferred financing	(5,052)	(4,509)
Issue of common shares for cash	40,747	48,665
Issuance of convertible debentures	46,000	57,500
Repayment of convertible debentures	—	(42,200)
Repayment of long-term debt (on refinancing)	(43,630)	(50,483)
Regular principal repayments	(17,197)	(14,354)
Issuance of long-term debt	95,956	98,300
Distributions to non-controlling interests	(876)	(866)
Cash dividends	(23,135)	(23,198)
Cash provided by financing activities	92,813	68,855
INVESTING ACTIVITIES		
(Increase) decrease in restricted cash	(3,735)	978
Acquisition of non-controlling interest	(381)	(3,593)
Equity investments	(8,523)	—
Distributions from equity investments	168	—
Acquisition of properties *(net of debt assumed)*	(65,297)	(79,857)
Capital expenditures	(27,905)	(15,415)
Cash used in investing activities	(105,673)	(97,887)
Net increase in cash	26,431	5,248
Cash, beginning of year	16,917	11,669
Cash, end of year	$43,348	$16,917

See accompanying notes

Supplemental disclosure of cash paid		
Interest	$34,163	$30,752
Capital taxes	$181	($143)

Notes to Consolidated Financial Statements

Dollar amounts in thousands (except per share amounts)

1. Corporate Information

Killam Properties Inc. (“Killam”) is a real estate corporation specializing in the acquisition, management and development of multi-residential apartment buildings and manufactured home communities (MHCs) in Canada. Killam is incorporated under the Canada Business Corporations Act. Killam’s common shares are traded publicly, listed on the Toronto Stock Exchange under the symbol “KMP”. The consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at December 31, 2011. Together, Killam and its subsidiaries are referred to as “the Company”.

The consolidated financial statements of the Company for the year ended December 31, 2011 were authorized for issue in accordance with a resolution of the Directors on March 6, 2012.

2. Significant Accounting Policies

(A) Statement of Compliance

The Company’s financial statements for the year ended December 31, 2011 represent the first annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company’s transition date to IFRS was January 1, 2010 (“Transition date”). The Company prepared its opening IFRS balance sheet at that date. The Company’s IFRS adoption date is January 1, 2011 (“Changeover date” or “adoption date”).

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”). These financial statements have been prepared in accordance with those IFRS standards and International Financial Reporting Interpretation Committee (“IFRIC”) interpretations issued and effective or issued and early adopted as at the time of preparing these statements (March 6, 2012). As these statements represent the Company’s initial presentation of its results and financial position under IFRS, they were prepared in accordance with IFRS 1, “First-time Adoption of IFRS”.

The Company’s consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP” or “GAAP”) until December 31, 2010. Canadian GAAP differs in some areas from IFRS. In preparing the Company’s 2011 consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied in the Canadian GAAP financial statements to comply with IFRS. In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of IFRS and the comparative figures in respect of 2010 were restated to reflect these adjustments. Reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on the Company’s equity and its net income and cash flows are provided in Note 4, “Transition to IFRS”.

(B) Basis of Presentation

The consolidated financial statements of the Company have been prepared on a historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Canadian dollars, which is Killam’s functional currency, and all values are rounded to the nearest thousand ($000) except when otherwise noted.

2. Significant Accounting Policies (continued)

(C) Basis of Consolidation

(i) Subsidiaries

The consolidated financial statements include the accounts of Killam and its subsidiaries. Non-controlling interests represent the portion of profit or loss and net assets not held by Killam, and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from shareholders' equity.

Subsidiaries are entities controlled by Killam. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by Killam. In certain circumstances, Killam has "de facto" control over entities in which it does not own more than 50% of the voting power. In its evaluation, management considers whether Killam controls the entity by virtue of the following circumstances:

- Power over more than half of the voting rights by virtue of an agreement with other investors;
- Power to govern the financial and operating policies of the entity under a statute or an agreement;
- Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body;
- Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

(ii) Joint Arrangements

The Company enters into joint arrangements with one or more parties whereby economic activity and decision making are shared. These arrangements may take the form of a jointly controlled operation, jointly controlled asset or joint venture and accordingly the presentation of each differs.

- A joint venture is an arrangement whereby each venturer does not have the rights to individual assets or obligations for expenses of the venture, but where each venturer is entitled to a share of the outcome of the activities of the arrangement. The Company accounts for its interest in joint ventures using the equity method and they are recorded in the Investment account of the Consolidated Balance Sheet.

- A jointly controlled operation is where the parties to the joint arrangement each use their own assets and incur their own expenses and liabilities and a contractual agreement exists as to the sharing of revenues and joint expenses. In this case, the Company recognizes only its assets and liabilities and its share of the results of operations of the jointly controlled operation.

(D) Property Acquisitions and Business Combinations

Where property is acquired through the acquisition of corporate interests, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of the judgement is set out in Note 3.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, corporate acquisitions are accounted for as business combinations.

2. Significant Accounting Policies (continued)

(E) Revenue Recognition

(i) Rental income

Revenue from rental properties is recognized when a tenant commences occupancy of a rental unit or site and rent is due. Rental income from investment properties is recognized on a straight-line basis over the lease term. The Company retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease.

(ii) Service charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the period in which the expense can be contractually recovered. Revenue related to laundry and parking is included gross of the related costs in revenue.

(iii) Manufactured home sales

Where revenue is obtained from the sale of manufactured homes, it is recognized when the significant risks and rewards have been transferred to the buyer. This will normally take place on the closing date of the home sale. Such sales are considered sales of goods, and not sales of real estate, as the Company does not manufacture these homes itself.

(F) Investment Properties

Investment property includes multi-family residential properties and manufactured home communities held to earn rental income and properties that are under construction or development for future use as investment properties.

Completed investment property

Initially, investment properties are recorded at cost, including transaction costs. Transaction costs include transfer taxes and various professional fees. Subsequent to initial recognition, investment properties are stated at fair value. Gains and losses arising from changes in the fair values are included in the income statement in the year in which they arise.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the commencement of operating leases. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of re-development.

Investment property under construction

The cost of development properties includes direct development costs, realty taxes and borrowing costs directly attributable to the development. Under the requirements of IAS 40, investment property under construction is measured at fair value at each reporting date, with the recognition of gains or losses in the income statement. If the fair value of an investment property under construction is not reliably determinable, but the Company expects the fair value of the property to be reliably determinable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

2. Significant Accounting Policies (continued)

Borrowing costs related to property under construction

Although investment properties under construction are measured at fair value, Killam elected to present its income statement as if borrowing costs related to the construction are capitalized. Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. The interest capitalized is calculated using the Company's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of substantial completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site or property acquired specifically for redevelopment but only where activities necessary to prepare the asset for redevelopment are in progress. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The Company considers practical completion to have occurred when the property is capable of operating in the manner intended by management.

(G) Property and Equipment

Property and Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised so as to write-off the cost less the residual values over the useful lives of the assets, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation rates are as follow:

Building	40 years
Heavy equipment	15 years
Vehicles	10 years
Furniture, fixtures and office equipment	5–10 years

(H) Impairment of Assets

At the end of each reporting period, assets, other than those identified in the standard as not being applicable to IAS 36 – Impairment of Assets ("IAS 36"), such as investment properties recorded at fair value, are assessed for any indication of impairment. Should the indication of impairment exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is defined as the higher of an asset's "fair value less cost to sell" and its "value-in-use". In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted.

Where the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the consolidated statement of comprehensive income. After the recognition of an impairment loss, the depreciation charge related to that asset is also revised for the adjusted carrying amount on a systematic basis over the remaining useful life of the asset. Should this impairment loss be determined to have reversed in a future period a reversal of the impairment loss is recorded in profit or loss. However, the reversal of an impairment loss will not increase the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized.

2. Significant Accounting Policies (continued)

(I) Inventory

Inventory represents manufactured homes available for sale. The manufactured homes are valued at the lower of cost (purchase price plus delivery and set-up costs) and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business based on market prices at the reporting date less costs to complete and the estimated costs of sale.

(J) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term deposits with an original maturity of three months or less.

(K) Share-based Compensation

The Company issues share-based awards to certain employees and non-employee directors whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in contributed surplus in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any' expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of share based awards is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 25).

(L) Government assistance and grants

The Company receives government assistance in order to complement and partially assist the Company's initiatives in providing affordable housing to low income-earning individuals. Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no related future costs are recognized in profit or loss in the period in which they become receivable.

2. Significant Accounting Policies (continued)

(M) Financial Assets and Liabilities

The following summarizes the Company's classification and measurement of financial assets and liabilities:

Financial Asset and Liability	Classification	Subsequent Measurement
Cash and cash equivalents	Fair value through Profit and Loss	Fair value
Derivative instrument liability	Fair value through Profit and Loss	Fair value
Receivables and other	Loans and Receivables	Amortized cost
Accounts payable and other	Other Financial Liabilities	Amortized cost
Mortgages	Other Financial Liabilities	Amortized cost
Convertible debentures	Other Financial Liabilities	Amortized cost
Subordinated debentures	Other Financial Liabilities	Amortized cost

(i) Long-Term Debt

Long-term debt is initially recognized at fair value less directly attributable transaction costs. After initial recognition, long-term debt is subsequently measured at amortized cost using the effective interest rate (EIR) method.

Financing fees and other costs incurred in connection with debt financing are deducted from the cost of the debt and amortized using the EIR method. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Canadian Mortgage and Housing Corporation insurance premiums are amortized over the mortgage amortization period using the EIR method.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR calculation.

(ii) Convertible Subordinated Debentures

Convertible subordinated debentures are separated into liability and equity components based on the terms of the contract. On issuance of the convertible debenture, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debenture based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised. Upon conversion, no gain or loss is recognized.

(N) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement as they arise.

Other leases are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

The Company has assessed all leases in which it is the lessor to be operating leases.

2. Significant Accounting Policies (continued)

(O) Taxation

(i) Current income tax

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not profit or loss. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

In December 2010, the IASB made amendments to IAS 12, "Income Taxes" ("IAS 12"), that are applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40, "Investment Property". The amendments introduce a rebuttable presumption that, for purposes of determining deferred tax consequences associated with temporary differences relating to investment properties, the carrying amount of an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments to IAS 12 are mandatorily effective for annual periods beginning on or after January 1, 2012. Upon transition to IFRS, the Company early adopted these amendments to IAS 12.

Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilized. The carrying value of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

(P) Derivative Financial Instruments and Hedge Accounting

The Company at times uses commodity swaps to hedge its risk associated with the increased cost of heating oil and natural gas. Such derivative financial instruments are recorded in the consolidated balance sheet at fair value at the date on which a derivative contract is entered into and are subsequently re-measured at fair value at every subsequent reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2. Significant Accounting Policies (continued)

For the purpose of cash flow hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognised immediately in profit or loss. Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

When a derivative is held as an economic hedge for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item. A derivative instrument that is a designated and effective hedging instrument is classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if: 1) a reliable allocation can be made; and 2) it is applied to all designated and effective hedging instruments.

3. Significant Accounting Judgments, Estimation and Assumptions

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

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

Judgements Other Than Estimates

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

Asset Acquisitions/Business Combinations

The Company acquires real estate properties. At the time of acquisition, the Company considers whether the acquisition represents the acquisition of an asset or a business. The Company accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, leasing operations, etc.). The significance of any process is judged with reference to the guidance in IAS 40 about ancillary services.

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

- A significant staff complement is included, including a maintenance team, leasing representatives and property management personnel, and
- Systems are acquired and continue to be incorporated into operations.

3. Significant Accounting Judgments, Estimation and Assumptions (continued)

Classification of investments as portfolio investments, associated businesses, joint ventures and subsidiaries

Classification of investments requires judgement on whether the Company controls, has joint control or significant influence is the power to participate in the financial and operating policy decisions of the investee but does not represent control or joint control over those decisions. If an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

In assessing the level of control or influence that the Company has over an investment, management considers ownership percentages, board representation as well as other relevant provisions in shareholder agreements.

Investment Properties

The Company's accounting policies relating to investment properties are described in Note 2(F). In applying this policy, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. Judgment is also applied in determining the extent and frequency of independent appraisals.

Operating Lease Commitments

The Company has entered into residential property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts with tenants as operating leases.

Financial Instruments

The Company's accounting policies relating to financial instruments are described in Note 2(P). The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments as fair value through profit and loss "FVTPL", assessment of the effectiveness of hedging relationships, determining whether the Company has significant influence over investees with which it has contractual relationships in addition to the financial instrument it holds and identification of embedded derivatives subject to fair value measurement in certain hybrid instruments.

Taxes

The Company is subject to income and capital gains taxes in numerous jurisdictions. Significant judgment is required to determine the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain. In particular, when calculating deferred taxation, the effective tax rate applicable on the temporary differences in investment property depends on the method by which the carrying amount of investment property will be realised. The Company recognises liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. Deferred tax assets and liabilities are recognised on a net basis to the extent they are relating to the same fiscal entity and fall due in approximately the same period.

Estimates

Valuation of Investment Properties

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

3. Significant Accounting Judgments, Estimation and Assumptions (continued)

Investment property under construction ("IPUC") is also valued at fair value, except if such values cannot be reliably determined. In the exceptional case when a fair value cannot be reliably determined, such property is recorded at cost. The fair value of IPUC is determined using either the discounted cash flow method or the residual method.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets and cap-rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of IPUC. These estimates are based on local market conditions existing at the reporting date. In arriving at estimates of market values as at January 1, 2010 and at subsequent dates, the external valuator and management used their market knowledge and professional judgement and did not rely solely on historical transaction comparables. In these circumstances, there is a greater degree of uncertainty than which exists in a more active market in estimating the fair values of investment property. The critical estimates and assumptions underlying the valuation of investment properties and developments are set out in Note 6.

Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques, including the discounted cash flow method. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Useful lives of Property and Equipment

Management reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

Income Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and expense already recorded.

4. Transition to IFRS

The Company transitioned to IFRS effective January 1, 2010 ("the transition date") and has prepared its opening IFRS balance sheet as at that date. The actual adoption date of IFRS is January 1, 2011, the date from which the Company will present its annual and interim financial statements, including comparative information, in accordance with IFRS. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company's consolidated financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS.

(a) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

4. Transition to IFRS (continued)

(i) Business combinations

Killam reconsidered the accounting for certain of its previous acquisitions in light of the guidance provided in IFRS 3 (2008), Business Combinations" ("IFRS 3 (2008)") combined with the guidance on accounting for investment property under IAS 40. The existence of specific guidance for investment property accounting and especially the guidance on the assessment of the significance of the ancillary services that are provided to the lessees of such investment property is a significant difference compared to Canadian GAAP. Management concluded that for one of the acquisitions previously treated as a business combination under Canadian GAAP, the appropriate accounting under IFRS would have been an asset acquisition and management decided to restate this transaction upon transition to IFRS. As a result, management reconsidered all transactions subsequent to March 31, 2005 under IFRS 3 (2008), but noted no further required reclassifications.

In accordance with IFRS 1, if a company elects to apply IFRS 3 (2008) retrospectively, the amendments to IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27 (2008)"), must also be applied retrospectively. As Killam elected to retroactively restate in accordance with IFRS 3 (2008) effective March 31, 2005, the Company is also required to early adopt the amendments to IAS 27 (2008) effective March 31, 2005, which did not have any financial impact on Killam's financial statements.

(ii) Borrowing costs

The Company has applied the transitional provisions in IAS 23 "Borrowing Costs" and capitalizes borrowing costs on assets where construction was commenced on or after the date of transition.

(iii) Share-based payment transactions

The company has elected to apply IFRS 2, "Share-based Payments" ("IFRS 2") to equity instruments granted after November 7, 2002 that have not vested by the transition date.

(b) Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1 the Company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below.

(i) Hedge accounting

Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the Company's results under IFRS. Any derivatives not meeting the IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") criteria for hedge accounting were recorded as a non-hedging derivative financial instrument.

(ii) Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

(iii) Leases

Retrospective application of IFRS would require the Company to reassess the classification of contracts in accordance with IFRIC 4, "Determining whether an arrangement contains a lease" ("IFRIC 4"), when the application of Canadian GAAP in accordance with EIC 150, "Determining whether an arrangement contains a lease", already produced the same result. IFRS 1 permits that if a first-time adopter made the same determination under previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRS. Killam elected to not reassess existing contracts effective January 1, 2010, in accordance with IFRIC 4.

4. Transition to IFRS (continued)

(c) Balance Sheet Reconciliation

The balance sheets as at January 1, 2010 (the date of transition) and at December 31, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

		December 31, 2010			January 1, 2010		
	Note 4(g)	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
ASSETS							
Non-current assets							
Investment properties	(i)	$810,232	$271,546	$1,081,778	$707,300	$207,102	$914,402
Investment properties under construction		1,033	-	1,033	-	-	-
Property and equipment		2,189	-	2,189	2,014	-	2,014
Other non-current assets	(iv)	4,561	(4,500)	61	4,584	(4,500)	84
Deferred tax	(iii)	1,009	(1,009)	-	640	(640)	-
		819,024	266,037	1,085,061	714,538	201,962	916,500
Current assets							
Cash	(ii)	16,105	812	16,917	10,961	708	11,669
Restricted cash	(ii)	6,029	149	6,178	7,020	136	7,156
Rent and other receivables	(ii)	4,861	(247)	4,614	2,676	(251)	2,425
Income tax receivable		37		37	400	-	400
Inventory		1,630		1,630	2,116	-	2,116
Other current assets	(ii)	1,885	11	1,896	1,662	(8)	1,654
		30,547	725	31,272	24,835	585	25,420
TOTAL ASSETS		$849,571	$266,762	$1,116,333	$739,373	$202,547	$941,920
EQUITY and LIABILITIES							
Shareholders' equity		$208,348	$206,760	$415,108	$177,202	$154,631	$331,833
Non-controlling interest	(ii)	-	11,933	11,933	-	15,482	15,482
Total Equity		208,348	218,693	427,041	177,202	170,113	347,315
Non-current liabilities							
Mortgages and loans payable	(ii)	501,739	79	501,818	439,050	82	439,132
Convertible debentures		50,170	207	50,377	40,822	-	40,822
Subordinated debentures		9,693	-	9,693	9,552	-	9,552
Deferred tax	(iii)	-	47,137	47,137	-	31,841	31,841
		561,602	47,423	609,025	489,424	31,923	521,347
Current liabilities							
Mortgages and loans payable		65,151	-	65,151	61,030	-	61,030
Security deposits	(ii)	3,105	2	3,107	2,100	111	2,211
Accounts payable and accrued liabilities	(ii)	11,365	644	12,009	9,617	400	10,017
		79,621	646	80,267	72,747	511	73,258
Total Liabilities		641,223	48,069	689,292	562,171	32,434	594,605
TOTAL EQUITY and LIABILITIES		$849,571	$266,762	$1,116,333	$739,373	$202,547	$941,920

4. Transition to IFRS (continued)

(d) Equity Reconciliation

The total effect on shareholders' equity is further analyzed as follows:

	Note 4(g)	December 31, 2010	January 1, 2010
As reported under previous GAAP		$208,348	$177,202
Fair value adjustment of investment property	(i)	254,574	189,495
Stock option adjustment	(vi)	66	-
Convertible and subordinate debentures	(ix)	(1,215)	(174)
Deferred taxes	(iii)	(46,665)	(34,689)
Shareholders' equity as reported under IFRS		$415,108	$331,834
Non-controlling interest	(ii)	11,933	15,482
Total equity		$427,041	$347,316

(e) Reconciliation of Net Income and Comprehensive Income

Net income and comprehensive income for the 12 months ended December 31, 2010 can be reconciled to the amounts reported under previous GAAP as follows:'

		12 Months Ended December 31, 2010		
	Note 4(g)	Previous GAAP	Effect of transition to IFRS	IFRS
Property revenue	(ii)	$113,279	$1,574	$114,853
Property operating expenses	(ii)	(43,709)	(684)	(44,393)
Home sales		403	-	403
Other income		547	-	547
		70,520	890	71,410
Long-term debt interest	(ii)	31,347	5	31,352
Depreciation	(v)	29,313	(28,930)	383
Amortization of deferred financing		1,731	-	1,731
General and administrative	(vi)	7,441	104	7,545
Provincial capital taxes		220	-	220
Interest and bank charges		258	-	258
		70,310	(28,821)	41,489
Income before fair value gains and income taxes		210	29,711	29,921
Fair value gains	(i)	-	39,098	39,098
Income before income taxes		210	68,809	69,019
Deferred tax	(vii)	(340)	(14,271)	(14,611)
Net (loss) income		($130)	$54,538	$54,408
Comprehensive (loss) income:				
Net (loss) income		(130)	54,538	54,408
Fair value of fuel hedges, net of tax		15	-	15
Comprehensive (loss) income:		($115)	$54,538	$54,423
Comprehensive (loss) income attributable to:				
Common Shareholders		(115)	53,916	53,801
Non-controlling interests		-	622	622
		($115)	$54,538	$54,423

4. Transition to IFRS (continued)

(f) Presentation Differences

Certain presentation differences between previous GAAP and IFRS have no impact on reported profit or total equity. Some income statement and balance sheet items have been reclassified into other line items under IFRS at the date of transition. Some line items are described differently (renamed) under IFRS compared to previous GAAP, although the assets and liabilities included may not have changed. These line items are as follows:

- Real estate properties have been split between "investment properties", "investment properties under construction" and "property and equipment".
- Homes sale revenue and expenses are shown net on one line in the income statement. A reconciliation of gross revenue and expenses is shown in the notes.
- A line titled "corporate revenues" has been classified as "other income" and included in the results from operations.

(g) Notes to the reconciliations

(i) Investment properties

The Company considers its properties to be investment properties under IAS 40, "Investment Property" ("IAS 40"). Investment property includes land and buildings held primarily to earn rental income or for capital appreciation, or both. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for investment property. The Company has elected to use the fair value model.

The increase in the investment properties for IFRS represents the increase to fair value in respect of the Company's investment property, net of the de-recognition of related intangible assets and liabilities which are inherently reflected in the fair value of commercial property. This increase also includes fair value adjustments related to the Company's consolidation of subsidiaries not owned 100% (see note (ii)).

(ii) Consolidation

Under Canadian GAAP the Company used the proportionate consolidation method to record its interest in two properties which it does not own 100%. Upon transition to IFRS, Killam considered the guidance in IAS 27.13 -15 and concluded that control existed with respect to these properties. As a result, as of January 1, 2010, Killam is fully consolidating these properties with a related credit to non-controlling interest for the portion not owned by the Company. There was no impact on retained earnings.

(iii) Deferred taxes

The increase in deferred income tax liabilities under IFRS compared with Canadian GAAP primarily relates to the increased carrying values of the Company's investment properties. The deferred income tax liability under IFRS is determined by applying tax rates to temporary differences based on the assumption that the Company will ultimately realize upon the investment properties through sale. In this respect, the Company early adopted the amendments to IAS 12.

(iv) Other non-current assets

Due to the retrospective application of IFRS 3 (2008) Killam restated certain of its previous business combinations. Certain transactions had been classified as business combinations under Canadian GAAP, but were concluded to be asset acquisitions under IFRS, the related goodwill balance has been derecognized upon transition.

(v) Depreciation

In accordance with IFRS and the Company's policy choice, the Company measures investment property at fair value and records changes in fair value in income during the period of change. Under Canadian GAAP, investment property was recorded at cost and depreciated over its estimated life. In addition, the amortization of intangible assets and liabilities recognized on the acquisition of investment property was amortized under Canadian GAAP, which is not the case under IFRS as the value of the intangible assets and liabilities are considered in the determination of the fair value of the investment property.

4. Transition to IFRS (continued)

(vi) Stock options

IFRS 2 "Share-based Payments" differs significantly from Canadian GAAP. IFRS requires an estimate of the forfeiture rate at each reporting period. Fair value is adjusted to account for any change in estimates. Historically, under Canadian GAAP, the Company did not estimate forfeiture rates. The method of expensing options is also significantly different under IFRS 2 compared to Canadian GAAP. The Company's Canadian GAAP allowed a straight-lining of the expenses related to stock options that vest in tranches ("graded vesting"), however, IFRS 2 requires the Company to use an accelerated expensing methodology. For example, in year 1, a full year of expense is recognized as well as a portion of each year's subsequent expense. In addition, under IFRS each tranche has its own fair value as at the grant date.

(vii) Deferred taxes

The adjustment related to deferred taxes reflects the change in temporary differences resulting from the impact of the above differences between IFRS and previous GAAP.

(viii) Non-controlling interests

This adjustment reflects the impact of the preceding adjustments to the extent they relate to interests of other equity holders.

(ix) Convertible and subordinated debentures

This adjustment reflects the impact of the difference between the accounting and tax values related to the convertible and subordinated debentures.

(x) Changes to the cash flow statement

There were no material adjustments to the consolidated statements of cash flow as a result of the conversion to IFRS.

5. Future Accounting Policy Changes

IFRS 9 - Financial Instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 10 - Consolidated Financial Statements

On May 12, 2011, the IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), which will replace IAS 27, "Consolidated and Separate Financial Statements" and SIC-12, "Consolidation – Special Purpose Entities". The new standard provides a single model for consolidation based on control, which exists when an investor is exposed or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. The standard also provides guidance on how to evaluate power and requires that control is assessed as facts and circumstances change. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is currently evaluating the impact of this amendment.

5. Future Accounting Policy Changes(continued)

IFRS 7 – Financial Instruments Disclosure

IFRS 7, "Financial Instruments: Disclosures", has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company is currently evaluating the impact of this amendment.

IFRS 11 - Joint Arrangements

On May 12, 2011, the IASB issued IFRS 11 "Joint Arrangements". This new standard replaces IAS 31 – Interests in Joint Ventures. "Joint Arrangements", applies when accounting for interests where there is joint control. Joint ventures would be classified either as joint operations or joint ventures, and the structure of the arrangement would no longer be the most significant factor when determining this classification. In addition, the standard would remove the option to proportionately consolidate the joint venture, and would require instead the use of the equity method of accounting. This new standard is effective for the Company's year-end beginning January 1, 2013. The Company is currently evaluating the impact of this amendment.

IFRS 12 - Disclosure of Interests in Other Entities

The IASB issued IFRS 12, "Disclosure of Interests in Other Entities" on May 12, 2011. The standard includes disclosure requirements about subsidiaries, joint ventures, and associates, replacing existing requirements. Additional disclosures include judgments and assumptions made in determining how to classify involvement with another entity, interests that non-controlling interests have in the consolidated entities, and the nature and risks associated with interests in other entities. IAS 28 has been amended and will provide the accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is currently evaluating the impact of this amendment.

IFRS 13 - Fair Value Measurement

IFRS 13 "Fair Value Measurement" establishes a single source of guidance for fair value measurements, when fair value is permitted or required by IFRS. The standard also requires enhanced disclosures when fair value is applied. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of this amendment.

IAS 1 - Presentation of Financial Statements

IAS 1 was amended in 2011 to expand on the disclosures required of items within Other Comprehensive Income. The revised standard requires that an entity distinguishes between those items that are recycled to profit and loss versus those items that are not recycled. Retrospective application is required and the standard is effective for annual periods beginning on or after July 1, 2012. The Company does not expect the amendments to IAS 1 to have a significant impact on its consolidated financial statements.

6. Investment Properties

For the year ended December 31,	2011				2010		
	Apart	**MHCs**	**Other**	**Total**	Apart	MHCs	Total
Balance, beginning of year	**$866,645**	**$215,133**	**$—**	**$1,081,778**	$708,217	$206,185	$914,402
Acquisition of properties	**91,347**	**2,591**	**2,032**	**95,970**	114,454	—	114,454
Transfer to IPUC [(1)]	**(5,373)**	**—**	**—**	**(5,373)**	—	—	—
Transfer from IPUC	**4,691**	**—**	**—**	**4,691**	—	—	—
Capital expenditures	**12,569**	**4,921**	**19**	**17,509**	8,856	4,968	13,824
Fair value adjustments	**42,968**	**9,102**	**—**	**52,070**	35,118	3,980	39,098
Balance, end of year	**$1,012,847**	**$231,747**	**$2,051**	**$1,246,645**	$866,645	$215,133	$1,081,778

(1) IPUC – Investment Properties Under Construction

During the year ended December 31, 2011, the Company capitalized salaries of $1.8 million (2010 - $2.3 million) as part of its project improvement, suite renovation and development programs.

An independent valuation was completed by an accredited national appraisal firm for the entire investment property portfolio as at January 1, 2010. As at December 31, 2011, 14% of the portfolio was independently valued (December 31, 2010 - 10%). The remaining properties of the portfolio were valued internally. Management's internal valuation model is also based on a capitalization of normalized NOI by property using property specific quarterly capitalization rates, provided by the external valuator. The Company determines the normalized NOI for each property based on current in-place rents and assumptions about occupancy, less cash outflows expected to operate and manage each property.

Investment property valuations are most sensitive to changes in the cap-rate. The cap-rate assumptions for the investment properties are included in the following table:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Low	High	Weighted Average	Low	High	Weighted Average	Low	High	Weighted Average
Apartments			**6.19%**			**6.47%**			**6.81%**
Halifax	5.70%	7.25%	6.07%	5.70%	7.50%	6.40%	5.75%	7.75%	6.57%
Moncton	6.00%	8.00%	6.23%	6.15%	8.25%	6.70%	6.25%	8.75%	6.94%
Fredericton	6.00%	6.75%	6.34%	6.00%	7.25%	6.64%	6.25%	7.50%	6.94%
Saint John	6.20%	6.75%	6.51%	6.25%	7.00%	6.76%	6.75%	7.50%	7.10%
Charlottetown	6.00%	6.50%	6.43%	6.25%	7.00%	6.86%	6.50%	7.25%	7.19%
St. John's	6.25%	7.00%	6.33%	6.75%	7.50%	6.75%	7.00%	7.00%	7.00%
Ontario	5.50%	5.50%	5.50%	5.70%	5.70%	5.70%	N/A	N/A	N/A
Other	6.30%	7.25%	7.44%	6.75%	7.00%	6.96%	7.25%	7.50%	7.39%
MHCs			**7.28%**			**7.47%**			**7.71%**
Ontario	7.25%	8.50%	7.48%	7.25%	8.50%	7.77%	7.25%	7.75%	7.59%
Nova Scotia	6.75%	7.75%	7.16%	7.00%	7.75%	7.27%	6.75%	8.50%	7.29%
New Brunswick	6.50%	9.40%	7.09%	6.75%	8.25%	7.14%	7.75%	7.75%	7.75%
Newfoundland	7.50%	7.50%	7.50%	7.75%	7.75%	7.75%	6.75%	8.50%	7.69%
Western Canada	6.75%	8.00%	7.36%	6.75%	8.50%	7.55%	7.50%	8.75%	8.06%

6. Investment Properties (continued)

The impact of a 10 basis point change in the capitalization rate used to value the investment properties would affect the fair value as follows:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Weighted Average	Increase	Decrease	Weighted Average	Increase	Decrease	Weighted Average	Increase	Decrease
Apartments	6.19%	$16,251	$16,785	6.47%	$12,949	$13,592	6.81%	$ 9,663	$10,463
MHCs	7.28%	3,126	3,213	7.47%	2,832	2,914	7.71%	2,591	2,659
Total		$19,377	$19,998		$15,781	$16,506		$12,254	$13,122

The impact of a 1% change in net operating income used to value the investment properties would affect the fair value as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Weighted Average	Increase/Decrease	Weighted Average	Increase/Decrease	Weighted Average	Increase/Decrease
Apartments	6.19%	$10,215	6.47%	$8,672	6.81%	$7,021
MHCs	7.28%	2,309	7.47%	2,147	7.71%	2,023
Total		$12,524		$10,819		$9,044

7. Investment Properties under Construction

For the year ended December 31,	**2011**	2010
Balance, beginning of year	**$1,033**	$—
Capital expenditures	**9,667**	1,033
Transfers from investment properties	**5,373**	—
Transfers to investment properties	**(4,691)**	—
Interest capitalized	**192**	—
Fair value adjustment	**—**	—
Balance, end of year	**$11,574**	$1,033

8. Investments

The following table presents the carrying value of the Company's 25% interest in equity accounted joint ventures:

As at	Ownership Interest			Carrying Value		
	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010	**Dec 31, 2011**	Dec 31, 2010	Jan 1, 2010
Investment properties	**25%**	—	—	**$8,420**	$—	$—

For the year ended December 31,	**2011**	2010
Balance, beginning of year	**$—**	$—
Additions	**8,523**	—
Share of net income	**65**	—
Distributions received	**(168)**	—
Balance, end of year	**$8,420**	$—

9. Property and Equipment

As at	**December 31, 2011**		December 31, 2010		January 1, 2010	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	**$ 270**	**$ —**	$ —	$ —	$ —	$ —
Building	**1,762**	**—**	—	—	—	—
Heavy equipment	**761**	**215**	719	172	694	143
Vehicles	**1,067**	**191**	927	105	614	31
Furniture, fixtures and equipment	**2,701**	**1,698**	2,346	1,526	2,126	1,246
	6,561	**$2,104**	3,992	$1,803	3,434	$1,420
Less: accumulated depreciation	**(2,104)**		(1,803)		(1,420)	
	$4,457		$2,189		$2,014	

For the year ended December 31,	**2011**	2010
Balance, beginning of year	**$2,189**	$2,014
Acquisition of properties	**2,032**	—
Capital expenditures	**537**	558
Depreciation	**(301)**	(383)
Balance, end of year	**$4,457**	$2,189

Acquisition of properties in 2011 represents the Company's acquisition of a 50% interest in the land and building which its head office occupies. Under IFRS owner occupied property is required to be accounted for as property and equipment and not investment property.

10. Cash and Restricted Cash

Cash

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Cash	**$43,348**	$16,917	$11,669

As at December 31, 2011, the Company's cash balances were held in bank accounts, to which the company has full access.

Restricted Cash

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Real estate deposits	**$1,494**	$284	$1,820
Reserve funds	**1,451**	516	509
Property tax reserves	**4,131**	3,091	3,018
Tenant security deposits	**2,837**	2,287	1,809
Restricted cash	**$9,913**	$6,178	$7,156

11. Rent and Other Receivables

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Rent receivable	**$ 611**	$ 603	$ 450
Insurance receivable	**191**	2,921	1,349
Other receivables	**904**	1,090	626
	$1,706	$4,614	$2,425

Included in other receivables are accruals for laundry revenue, commission revenues and other non-rental income. The majority of these receivables are less than 60 days old.

11. Rent and Other Receivables (continued)

The Company's policy is to write-off tenant receivables when the tenant vacates the unit and any subsequent receipt of funds is netted against bad debts. The Company's bad debt expense experience historically has been less than 0.4% of revenues. As a result of the historically low experience of bad debts, no allowance for doubtful accounts is recorded in the accounts.

Pursuant to their respective terms, tenant receivables are aged as follows:

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
0-30 days	**$295**	$401	$ 11
31-60 days	**105**	80	296
61-90 days	**11**	5	40
Over 90 days	**200**	117	103
Total	**$611**	$603	$450

12. Inventory

Inventory relates to manufactured homes for which sales have not closed at year-end, as well as stock homes. As at December 31, 2011, no amount of the inventory is pledged as collateral related to short-term or long-term financing.

13. Other Current Assets

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Prepaid property tax	**$1,155**	$1,086	$ 945
Prepaid insurance	**336**	297	268
Other prepaids	**867**	513	441
	$2,358	$1,896	$1,654

14. Accounts Payable and Other Accrued Liabilities

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Accounts payable	**$4,725**	$4,166	$4,142
Mortgage interest payable	**2,082**	2,015	1,838
Accrued payables	**2,027**	2,331	868
Rent received in advance	**767**	749	683
Dividends payable	**2,389**	2,102	1,800
	$11,990	$11,363	$9,331

15. Mortgages and Loans Payable

As at	**Maturities**	**Interest Rates**	**December 31, 2011**	December 31, 2010	January 1, 2010
Mortgages	Jan 2012–Feb 2025	2.32% - 6.94%	**$637,362**	$569,680	$497,939
Vendor financing	Jan 2012–Jun 2016	0.00% - 9.20%	**2,421**	4,689	8,369
Total mortgages and loans			**$639,783**	$574,369	$506,308
Less: current portion			**(64,532)**	(65,151)	(61,030)
Less: deferred financing charges			**(9,568)**	(7,400)	(6,146)
			$565,683	$501,818	$439,132

15. Mortgages and Loans Payable (continued)

Mortgages are secured by a first charge on the properties of the Company and vendor mortgages are secured by either a second charge on the property and/or a general corporate guarantee. The weighted average mortgage interest rate at December 31, 2011 was 4.63% (December 31, 2010 – 4.95% and January 1, 2010 – 5.20%).

Regular Principal and Maturity Repayments		Average Interest Rate by Year of Maturity	
Year	Amount	Balance December 31, 2011	Weighted Avg. Int. Rate
2012	$64,532	$47,202	5.22%
2013	90,398	77,937	4.86%
2014	141,231	154,232	4.59%
2015	128,036	127,229	4.76%
2016	102,654	122,891	4.34%
Thereafter	112,932	110,292	4.42%
	$639,783	$639,783	4.63%

16. Convertible Debentures

Face Interest Rate %	Effective Interest Rate %	Conversion Price	Face Amount	Maturity	December 31, 2011	December 31, 2010	January 1, 2010
6.50%	7.20%	$12.40	$42,200	—	$ —	$ —	$41,575
5.65%	7.26%	$13.40	$57,500	Nov 30, 2017	**53,115**	52,540	—
5.45%	6.25%	$14.60	$46,000	June 30, 2018	**44,059**	—	—
					$97,174	$52,540	$41,575
Less: Deferred financing charges					**(3,625)**	(2,163)	(753)
					$93,549	$50,377	$40,822

Killam's $57.5 million convertible subordinated debentures are redeemable at the option of Killam after November 30, 2013 and on or before November 30, 2015 (provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price). After November 30, 2015 the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $52.5 million and the fair value of the holders' conversion option was $5.0 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component is calculated at 7.26%.

Killam's $46.0 million convertible subordinated debentures are redeemable at the option of Killam after June 30, 2014 and on or before June 30, 2016 (provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price). After June 30, 2016 the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $43.9 million and the fair value of the holders' conversion option was $2.1 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component is calculated at 6.25%.

During 2010, Killam repaid the $42.2 million convertible debenture at face value. The debenture was to mature in May, 2012 and had a face interest rate of 6.50%.

17. Subordinated Debentures

Killam's unsecured subordinated debentures mature January 4, 2013 and consist of the following:

Face Interest Rate %	Effective Interest Rate %	Face Amount	December 31, 2011	December 31, 2010	January 1, 2010
5.92%	6.46%	$2,500	**$2,482**	$2,466	$2,451
6.06%	6.62%	$2,500	**2,482**	2,465	2,449
6.33%	7.10%	$5,000	**4,953**	4,909	4,869
			$9,917	$9,840	$9,769
Less: Deferred financing charges			**(73)**	(147)	(217)
			$9,844	$9,693	$9,552

Killam calculated the fair value of warrants issued in conjunction with the subordinated debentures as $0.9 million. This amount is reflected in "Other paid-in capital". The weighted average effective interest rate on the remaining liability component of the debentures is calculated at 6.82%.

The following table summarizes the warrants outstanding:

As at	**December 31, 2011**		December 31, 2010		January 1, 2010	
Exercise price	**Number of Warrants Outstanding**	**Remaining Contractual Life**	Number of Warrants Outstanding	Remaining Contractual Life	Number of Warrants Outstanding	Remaining Contractual Life
$14.40	**347,222**	**1.01 years**	347,222	2.01 years	347,222	3.01 years
$15.20	**328,947**	**1.01 years**	328,947	2.01 years	328,947	3.01 years
$12.24	**816,993**	**1.01 years**	816,993	2.01 years	816,993	3.01 years
	1,493,162		1,493,162		1,493,162	

18. Other Liabilities

As at	December 31, 2011	December 31, 2010	January 1, 2010
Promissory notes payable	**$2,937**	$646	$685
Less: current portion	**(255)**	(39)	(39)
	$2,682	$607	$646

Promissory notes payable relate to amounts received in advance from governmental agencies in relation to rental subsidy agreements. Killam records the forgiveness of the notes into income on a monthly basis as the amounts are earned.

19. Credit Facilities

The Company has credit facilities set out as follows:

I. A credit facility with a major financial institution that can be used to finance the Company's on-going acquisition program. The amount available under the revolving facility varies with the value of pledged assets, to a maximum of $15 million. The facility includes the option for a commitment increase, allowing Killam a one-time opportunity to increase the credit limit to $40 million. The interest rate on the debt is prime plus 175 basis points on prime rate advances or 275 basis points over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at December 31, 2011 the Company had assets with a fair value of $1.7 million pledged to the line and had a balance outstanding of $Nil (December 31, 2010 and January 1, 2010 - $NIL). This facility expires in May 2012.

II. An operating facility which consists of a $1.0 million revolving demand facility for general business purposes, bearing interest at the lender's prime rate plus 1%. As at December 31, 2011, the Company had letters of credit totaling $0.4 million outstanding against this facility (December 31, 2010 - $0.4 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

20. Capital Stock and Contributed Surplus

Capital Stock

Authorized:

Unlimited number of common shares, with no par value
Unlimited number of preferred shares, issuable in series, with no par value

Issued:

The following table summarizes the changes in issued common shares of the Company:

For the year ended December 31,	**2011**		2010	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of year	**44,971,566**	**$293,966**	38,518,765	$243,205
Issued for cash (i)	**3,744,400**	**38,299**	6,210,000	48,153
Dividend reinvestment plan (ii)	**284,843**	**2,976**	145,801	1,335
Stock options exercised	**289,942**	**3,441**	97,000	558
Tax benefit of issuance costs	**—**	**496**	—	715
Balance, end of year	**49,290,751**	**$339,178**	44,971,566	$293,966

(i) Net of issue costs of $1,953 (2010 - $2,458)
(ii) Net of issue costs of $31 (2010 - $10)

Dividends

Killam paid monthly dividends as declared by its Board of Directors on or about the 15th day of each month. An annualized dividend of $0.56 was paid for the period January to May 2011 and $0.58 for the period June to December 2011. An annualized dividend of $0.56 was paid for the period January to December 2010.

Dividend Reinvestment Plan

Killam's Dividend Reinvestment Plan ("DRIP") allows common shareholders to elect to have all cash dividends from Killam reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to a ten day volume weighted-average closing price of Killam's common shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration.

Contributed Surplus

For the year ended December 31,	**2011**	2010
Balance, beginning of year	**$2,637**	$2,090
Stock options expensed	**285**	583
Stock options exercised	**(962)**	(36)
Restricted share unit expense	**291**	—
Balance, end of year	**$2,251**	$2,637

21. Share Based Compensation

Share based compensation expense for the years ended December 31, 2011 and 2010 is as follows:

For the year ended December 31,	**2011**	2010
Stock option plan	**$285**	$583
Restricted share unit plan	**291**	—
Total share based compensation expense	**$576**	$583

Stock Option Plan

Under the terms of the stock option plan:

(i) from time to time Killam designates eligible participants to whom options will be granted, and the number of shares to be optioned to each;

(ii) eligible participants are persons who are employees, officers, directors and consultants of Killam;

(iii) shares to be optioned shall not exceed 2,125,000 (December 31, 2010 – 2,125,000) and the total number of shares to be optioned to any eligible participant shall not exceed 10% of the issued and outstanding shares of the class as at the date such option is granted;

(iv) the option price for the shares is determined at the time of granting of the option but cannot be less than the fair market value of the shares at the time the option is granted less any applicable discount permitted by the Toronto Stock Exchange;

(v) the term during which any option granted may be exercised is determined by Killam at the time the option is granted but may not exceed the maximum period permitted from time to time by the Toronto Stock Exchange; and

(vi) the options issued after January 1, 2009 vest 20% immediately upon the grant date and 20% during each subsequent anniversary. The options issued prior to this date vest 20% at each anniversary date. Another requirement for vesting is the employee or director is still providing services to Killam. Any employee/director leaving prior to vesting of a tranche forfeits the right to such options.

Options granted and exercised during the years ended December 31 are as follows:

For the year ended December 31,	**2011**		2010	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**1,471,625**	**$7.70**	1,331,875	$7.46
Granted	**—**	**—**	657,500	8.16
Exercised (a)	**(289,942)**	**8.55**	(97,000)	5.38
Forfeited	**(917)**	**9.60**	(420,750)	8.20
Outstanding, end of year	**1,180,766**	**$7.49**	1,471,625	$7.70

(a) The options were exercised throughout the year. The average share price of Killam's common shares during 2011 was $10.59 (2010 - $8.94).

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants:

	2010
Expected volatility	28.2%
Risk-free interest rate	2.55%
Expected lives	5 years
Expected dividend yield	6.9%

21. Share Based Compensation (continued)

The following table summarizes the stock options outstanding:

As at	**December 31, 2011**			December 31, 2010		
Exercise Prices	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$5.32	**264,251**	**2.33 years**	**149,504**	310,000	3.33 years	114,250
$7.94	**28,175**	**0.54 years**	**22,841**	40,000	1.54 years	8,292
$8.03	**137,500**	**1.42 years**	**126,042**	137,500	2.42 years	98,552
$8.06	**137,500**	**0.63 years**	**119,167**	137,500	1.63 years	94,646
$8.11	**1,250**	**1.09 years**	**958**	1,250	2.09 years	731
$8.16	**611,882**	**3.42 years**	**294,091**	655,500	4.42 years	206,206
$9.40	—	—	—	137,500	0.61 years	120,657
$9.60	—	—	—	48,625	0.55 years	44,233
$9.92	—	—	—	2,500	0.50 years	2,240
$10.04	**208**	**0.25 years**	**125**	1,250	1.25 years	929
	1,180,766		**712,728**	1,471,625		690,736

The exercisable options had a weighted average exercise price of $7.52 at December 31, 2011 ($7.97 as at December 31, 2010).

Restricted Share Unit Plan

The Restricted Share Unit Plan (RSU) gives members of the senior executive team the right to receive a percentage of their annual bonus, and non-executive members of the board of directors, the right to receive a percentage of their annual retainer in the form of restricted shares ("Restricted Shares") in lieu of cash. The Compensation Committee has established the following parameters on the percentage of the annual bonus and annual retainer which may be allocated to Restricted Units:

	Minimum	Maximum
Non-executive board members	0%	100%
President and CFO	33%	33%
Other executives	25%	50%

Killam will match the elected amount in the form of Restricted Shares having a value equal to the volume weighted average price of all common shares traded on the TSX for the five trading days immediately preceding the date on which the compensation is payable. The Restricted Shares earn notional dividends based on the same dividends paid on the common shares, and such notional dividends are used to acquire additional Restricted Shares. The initial Restricted Shares and Restricted Shares acquired through notional dividend reinvestment are credited to each person's Restricted Share account and are not issued to the employee or board member until they redeem such Restricted Share Units.

The initial cost of the RSU based transactions is determined, in accordance with IFRS 2 – Share-based Payments ("IFRS 2"), as the fair value of the Restricted Shares on the grant date. The fair value of each Restricted Share granted is determined based on the weighted average observable closing market prices of Killam's shares five trading days preceding the grant date. This initial cost of RSUs in consideration for board fees or a portion of executive cash bonuses is expensed immediately while the cost of the matching RSUs is expensed over the vesting period

The Restricted Shares will be redeemed and paid out by December 31 of the year in which the Restricted Shares have vested. The Restricted Shares shall vest with the following schedule; (a) 50% on the second anniversary of the date such Restricted Shares were granted; and (b) 50% on the third anniversary of the date the restricted Shares were granted. The Company has the option of redeeming the RSUs for cash in lieu of issuing shares.

21. Share Based Compensation (continued)

The details of the Restricted Share Units issued under the RSU are shown below:

For the year ended December 31,	**2011**		2010	
	Number of Shares	**Weighted Average Issue Price**	Number of Shares	Weighted Average Issue Price
Outstanding, beginning of year	**—**	**—**	—	—
Granted	**47,346**	**10.96**	—	—
Additional restricted share distributions	**736**	**10.80**	—	—
Outstanding, end of year	**48,082**	**10.96**	—	—

The employee portion of the above RSU (50%) may be withdrawn on departure from the Company prior to vesting.

22. Home Sales

For the year ended December 31,	**2011**	2010
Home sale revenues	**$4,229**	$3,006
Cost of home sales	**(3,703)**	(2,559)
New home placement fees	**55**	82
Operating expenses	**(95)**	(126)
Income from home sales	**$486**	$403

23. Long-term Debt Interest

For the year ended December 31,	**2011**	2010
Mortgage and loan interest	**$28,817**	$27,440
Convertible debenture interest	**5,357**	3,225
Subordinated debenture interest	**688**	687
Capitalized interest	**(192)**	—
Total long-term debt interest	**$34,670**	$31,352

24. Income Taxes

The income tax provisions differ from that computed using the statutory rates for the following reasons:

For the year ended December 31,	**2011**		2010	
Net income before income taxes	**$84,741**		$69,019	
Income tax expense at statutory rates	**$25,677**	**30.3%**	$22,224	32.2%
Non-taxable component of fair value gain	**(7,399)**	**(8.7)%**	(4,729)	(6.9)%
Non-deductible share compensation	**174**	**0.2%**	116	0.2%
Impact of change in effective tax rates	**(635)**	**(0.7)%**	(3,002)	(4.3)%
Other	**103**	**0.1%**	2	—%
Deferred tax expense	**$17,920**	**21.1%**	$14,611	21.2%

The 1.9% decrease in the statutory income tax rate is the result of the 1.5% decreasing in the Federal income tax rate along with provincial tax and apportionment changes.

24. Income Taxes (continued)

Deferred income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax assets and liabilities are as follows:

	Consolidated Balance Sheets			Consolidated Statements of Income	
	2011	2010	2009	**2011**	2010
Real estate properties	**$64,370**	$50,327	$36,049	**$14,043**	$14,278
Loss carryforwards	**-**	(3,613)	(3,541)	**3,613**	(72)
Convertible debentures	**1,796**	1,381	174	**(163)**	(187)
Other	**(1,027)**	(958)	(841)	**427**	592
Net deferred tax expense				**$17,920**	$14,611
Net deferred tax liabilities	**$65,139**	$47,137	$31,841		

Reconciliation of net deferred tax liabilities	**2011**	2010
Balance as of January 1	**$47,137**	$31,841
Recognized in statement of income	**17,920**	14,611
Recognised in other comprehensive income	**-**	6
Recognized in equity:		
on issuance of shares	**(496)**	(715)
on issuance of convertible debentures	**578**	1,394
Balance as at December 31	**$65,139**	$47,137

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised, aggregate to $9,709 (December 31, 2010 - $3,035, January 1, 2010 $1,595).

25. Per Share Information

The following are the weighted average number of shares outstanding for the years ended December 31, 2011 and 2010. The fully diluted amounts shown below exclude stock options and warrants whose exercise price exceeded the average market price for the period.

For the year ended December 31,	**2011**	2010
Weighted average shares outstanding - basic	**45,523,031**	43,393,351
Unexercised dilutive options	**423,392**	330,673
Restricted share units	**14,833**	—
Convertible debentures	**6,128,943**	3,477,210
Weighted average shares outstanding - diluted	**52,090,199**	47,201,234

Calculation of Numerator for Diluted Share Amounts

For the year ended December 31,	**2011**	2010
Net income applicable to common shareholders	**$65,965**	$53,786
Adjustment for dilutive effect of convertible debentures	**3,697**	2,225
Numerator for diluted per share amounts	**$69,662**	$56,011

26. Segmented Information

The Company operates in two rental segments of the multi-family residential industry: apartments and MHCs. The Company also operated in the manufactured home sales segment, information on this segment is provided in the consolidated statements of income.

The accounting policies of these segments are the same as those described in the summary of significant accounting policies. The segments are managed and analyzed individually based on income from property operations before interest and amortization. The operating results and capital assets of the segments are set out as follows:

As at and for the year ended December 31, 2011

	Apartments	**MHCs**	**Other**	**Total**
Property revenue	**$99,973**	**$25,709**	**$79**	**$125,761**
Property operating expenses	**(40,691)**	**(9,004)**	**(42)**	**(49,737)**
Income from property operations	**$59,282**	**$16,705**	**$37**	**$76,024**
Income from home sales				**486**
Other income				**435**
Net operating income				**$76,945**
Investment properties	**$1,012,847**	**$231,747**	**$2,051**	**$1,246,645**
Capital expenditures – properties	**$12,569**	**$4,921**	**$19**	**$17,509**
Capital expenditures (IPUC)				**9,859**
				27,368
Corporate expenditures				**537**
Total capital expenditures				**$27,905**

As at and for the year ended December 31, 2010

	Apartments	MHCs	Other	Total
Property revenue	$89,945	$24,908	—	$114,853
Property operating expenses	(35,815)	(8,578)	—	(44,393)
Income from property operations	$54,130	$16,330	—	$70,460
Income from home sales				403
Other income				547
Net operating income				$71,410
Investment properties	$866,645	$215,133	—	$1,081,778
Capital expenditures - properties	$8,856	$4,968	—	$13,824
Capital expenditures (IPUC)				1,033
				14,857
Corporate expenditures				558
Total				$15,415

27. Financial Risk Management Objectives and Policies

The Company's principal financial liabilities, other than derivatives, are comprised of mortgages, debentures and trade payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company has various financial assets such as trade receivables and cash which arise directly from its operations.

The Company will also enter into derivative transactions, primarily natural gas and oil swap contracts, to manage the price risk arising from fluctuations in these commodities. It is, and has been, the Company's policy that no speculative trading in derivatives shall be undertaken.

The main risks arising from the Company's financial instruments are cash flow interest rate risk, credit risk, and liquidity risk. These risks are managed as follows:

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2011, no mortgages or vendor debt have floating interest rates (December 31, 2010 - Nil), and consequently Killam is not exposed to short-term interest rate risk.

Interest rate risk is managed through management's periodic review of its mortgage portfolio. If market conditions warrant, the Company will attempt to renegotiate its existing debt to take advantage of lower interest rates. The Company will also structure its debt so as to stagger the debt maturities, thereby minimizing the Company's exposure to interest rate fluctuations. An annualized 1% change in the interest rate on Killam's entire mortgage and vendor debt at December 31, 2011, would affect financing costs by approximately $6.4 million per year. However, only $44.7 million of Killam's mortgage and vendor debt matures in the next twelve months. Assuming these mortgages are refinanced at similar terms, but at a 1% change in interest rate, this would impact the Company by $0.4 million per year.

(ii) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The Company mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing and the Company also obtains a security deposit to assist in potential recovery requirements. In addition, the receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant. The Company's bad debt expense experience historically has been less than 0.4% of revenues. No one tenant accounts for more than 1% of the tenant receivables as at each of the period-ends presented in these financial statements. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

(iii) Liquidity risk

Senior management manages the Company's cash resources based on financial forecasts and anticipated cash flows. The maturities of the Company's long-term financial liabilities are set out in Notes 15 to 18 of the consolidated financial statements. The Company structures its financings so as to stagger the maturities of its debt, thereby minimizing the Company's exposure to liquidity risk in any one year. In addition, the Company's apartments qualify for Canada Mortgage and Housing Corporation (CMHC) insured debt, reducing the refinancing risk on mortgage maturities. The Company's MHCs do not qualify for CMHC insured debt, however, they continue to have access to mortgage debt. Management does not expect to be faced with liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector. During the year ended December 31, 2011, the Company refinanced $46.4 million of maturing apartment mortgages with new mortgages totaling $61.6 million for net proceeds of $15.2 million and refinanced $5.3 million of maturing MHC mortgages. In addition, the Company placed mortgages on unencumbered apartment and MHC properties of $5.0 million and $1.2 million, respectively.

27. Financial Risk Management Objectives and Policies (continued)

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, issue new shares, issue debt securities or adjust mortgage financing on properties.

The Company monitors capital using a total gross debt to total assets ratio. The Company's strategy is to maintain its total gross debt to total assets ratio between 55-65%. The calculation of the total gross debt to total assets is summarized as follows:

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Mortgages and vendor financing	**$639,783**	$574,369	$506,308
Convertible debentures	**97,174**	52,540	41,575
Subordinated debentures	**9,917**	9,840	9,769
Total Gross Debt	**$746,874**	$636,749	$557,652
Totals Assets	**$1,329,531**	$1,116,333	$941,920
Total Gross Debt as a Percentage of Total Assets	**56.2%**	57.0%	59.2%

The above calculation is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. A 10 basis point increase in the weighted average cap-rate as at December 31, 2011 would increase the debt as a percentage of assets by 80 basis points.

The following table presents the contractual maturities of the Company's liabilities over the next five years:

	December 31	Year				
	Total	2012	2013	2014	2015	2016-2020
Mortgages and vendor debt	**$639,783**	$64,532	$90,398	$141,231	$128,036	$215,586
Convertible debentures	**103,500**	—	—	—	—	103,500
Subordinated debentures	**10,000**	—	10,000	—	—	—
	$753,283	$64,532	$100,398	$141,231	$128,036	$319,086

Fair Value

Financial instruments are defined as a contractual right or obligation to receive or deliver cash or another financial asset. The fair values of the Company's financial instruments, except for mortgages and loans payable, approximate their recorded values at December 31, 2011, December 31, 2010 and January 1, 2010 due to their short-term nature and or the credit terms of those instruments. The following table presents the classification, subsequent measurement, carrying values and fair values (where available) of the Company's financial assets and liabilities.

		December 31, 2011		December 31, 2010		January 1, 2010	
Classification	**Subsequent Measurement**	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Held for Trading:							
Cash and cash equivalents (a)	Fair Value (Level 1)	**$44,348**	**$44,348**	$16,917	$16,917	$11,669	$11,669
Derivative instrument liability (a)	Fair Value (Level 1)	**$ —**	**$ —**	$ —	$—	$ —	$(21)
Loans and Receivables:							
Receivables and other (b)	Amortized cost	**$11,707**	**$11,707**	$10,829	$10,829	$9,981	$9,981
Other Financial Liabilities:							
Accounts payable and other (b)	Amortized cost	**$15,304**	**$15,304**	$14,470	$14,470	$11,542	$11,542
Mortgages (d)	Amortized cost	**$639,783**	**$743,179**	$574,369	$613,234	$506,308	$510,300
Convertible debentures (c)	Amortized cost	**$97,174**	**$99,201**	$52,540	$53,795	$41,575	$43,654
Subordinated debentures (d)	Amortized cost	**$9,917**	**$10,018**	$9,840	$9,845	$9,769	$9,717

27. Financial Risk Management Objectives and Policies (continued)

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have significant effect on the recorded fair value that are not based on observable market data.

(a) Cash and cash equivalents and derivative instrument liabilities are classified as held-for-trading and carried at their fair values. The Company had no commodity swaps settled or outstanding in 2011 (2010 – $0.03 million).

(b) The Company's short-term financial instruments, comprising amounts receivable, restricted cash, accounts payable and accrued liabilities, and security deposits are carried at amortized cost which, due to their short-term nature, approximates their fair value.

(c) The fair value of the convertible debenture is based on quoted market price as at the balance sheet date.

(d) Long-term financial instruments include mortgages and debentures. The fair values of these financial instruments are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions.

(e) The interest rates used to discount the estimated cash flows, when applicable, are based on the government yield curve at the reporting date, plus an adequate credit spread and were as follows:

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Mortgages - Apartments	**2.07%**	3.26%	3.57%
Mortgages – MHCs	**3.97%**	5.16%	5.47%
Subordinated debentures	**5.45%**	6.64%	6.95%

28. Commitments

Charlotte Court is a two phase apartment complex in Charlottetown, Prince Edward Island. Phase I of the 96-unit apartment complex consists of 49 units and construction was completed in July 2011 and has been transferred to investment properties. Phase II will consist of 47 units with an estimated total cost of construction for Phase II to be approximately $6.8 million. No significant construction contracts have been awarded.

Site preparation for the development of S2, Killam's 63-unit development in Halifax, beside the Company's 154-unit Shaunslieve Apartments, began late in the second quarter of 2011 and construction of the concrete building is underway. Total construction costs are estimated to be $14.1 million.

Construction on The Plaza, a 101-unit development, located beside Killam's 151-unit Forest Hills building in Fredericton began in July 2011. Total construction costs are estimated to be $21.5 million.

Bennett House is a new 71-unit development in the Pleasantville area of St. John's on land Killam purchased in the first quarter of 2011. Construction began during the fourth quarter of 2011 and total construction costs are estimated to be $15.1 million.

The summary below highlights outstanding contracts at December 31, 2011:

	S2	The Plaza	Bennett House	Total
Contracts awarded	$4,498	$19,205	$771	$24,474
Work completed to date	(724)	(2,307)	(499)	(3,530)
Remaining capital commitment	$3,774	$16,898	$272	$20,944

All of the projects are expected to be ready for occupancy in late 2012 or early 2013.

29. Related Party Transactions

Killam has contracted APM Construction Services Inc. ("APM") to act as Project Manager on the Charlotte Court and The Plaza construction projects as set out in Note 28. APM is an entity controlled by a director of Killam. APM will be paid an industry standard management fee of approximately 4% of the construction costs. For the year ended December 31, 2011, Killam has paid APM $0.2 million for construction management services to-date. In addition, Killam paid APM $0.2 million for design fees in 2010 related to the projects.

During the first quarter of 2011, a short-term loan was provided by the Company to a director. The loan amount of thirty-two thousand dollars was repaid with market interest in March 2011 and was outstanding for 67 days.

During the fourth quarter of 2011, Killam purchased a 50% interest in a commercial complex which houses its head office. The remaining 50% interest was purchased by a company controlled by an executive of Killam. In addition, the property manager for the commercial complex is controlled by the executive and is paid an industry standard property management fee.

Key management personnel remuneration

The remuneration of directors and other key management personnel of Killam during the years ended December 31, 2011 and 2010 was as follows:

	2011			2010		
	Board of Directors	Executive Management	**Total**	Board of Directors	Executive Management	Total
Salary	$238	$1,855	**$2,093**	$292	$1,713	$2,005
Bonus	—	348	**348**	—	539	539
Restricted share awards	153	366	**519**	—	—	—
Option based awards	—	—	—	—	334	334
Total	$391	$2,569	**$2,960**	$292	$2,586	$2,878

30. Subsequent Events

Subsequent to December 31, 2011, the Company has refinanced $7.6 million of maturing apartment debt for net proceeds of $0.8 million. The previous weighted average interest rate was 4.63% and the interest rate on the new debt is 2.38%. In addition, the Company repaid a $0.9 million vendor mortgage bearing interest at 5.0%.

Subsequent to December 31, 2011, the Company acquired a 43-unit apartment building (with 14,482 square feet of commercial space) in Halifax, NS. The purchase price of $13.8 million was satisfied by the assumption of a $7.7 million mortgage bearing interest at 5.91% with the balance in cash.

Subsequent to December 31, 2011, Killam has agreed to acquire a 240-unit, three-building apartment complex in Halifax, NS. The purchase price of $19.2 million is expected to be satisfied with a new CMHC mortgage of approximately $14.0 million with the balance in cash.

On January 17, 2012 and February 16, 2012, the Company announced dividends of $0.04833 per share, payable on February 15, 2012 and March 15, 2012, respectively, to shareholders of record on January 31, 2012 and February 29, 2012, respectively.

Five Year Summary[1]

In thousands (except per share data)

Statement of Earnings Information	**2011**	2010	2009	2008	2007
Income from Property Operations	**$76,024**	$70,460	$62,606	$56,458	$49,967
Income from Home Sales	**$486**	$403	$234	$1,172	$488
Other Income	**$435**	$547	$424	$763	$1,156
Interest Costs	**$34,891**	$31,610	$30,699	$29,999	$27,596
General and Administrative	**$7,542**	$7,545	$6,732	$6,247	$5,548
Gain on Debt Settlement	**$ –**	$ –	($638)	$ –	$ –
Depreciation and Amortization	**$1,711**	$2,114	$28,831	$28,712	$25,664
Provincial Capital Tax	**$130**	$220	$313	$401	$478
Fair Value Gains	**$52,070**	$39,098	$ –	$ –	$ –
Future Tax Recovery	**$ –**	$ –	$830	$1,958	$2,270
Deferred Tax Expense	**($17,920)**	($14,611)	$ –	$ –	$ –
Net Income (Loss)	**$66,821**	$54,408	($1,843)	($5,008)	($5,405)
Net Income (Loss) Attributable to Common Shareholders	**$65,965**	$53,786	($1,843)	($5,008)	($5,405)
Net Income (Loss) per Share - Basic	**$1.45**	$1.24	($0.05)	($0.15)	($0.18)
Net Income (Loss) per Share - Diluted	**$1.34**	$1.19	($0.05)	($0.15)	($0.18)
Balance Sheet Information					
Total Assets	**$1,329,531**	$1,116,333	$739,373	$738,668	$723,680
Total Liabilities	**$816,988**	$689,292	$562,171	$565,475	$529,796
Total Equity	**$512,543**	$427,041	$177,202	$173,193	$193,884
Statement of Cash Flow Information					
Cash Provided by Operating Activities	**$39,291**	$34,280	$26,226	$22,364	$18,412
Cash Provided by (Used in) Financing Activities	**$92,813**	$68,855	($300)	$4,862	$116,358
Cash Used in Investing Activities	**($105,673)**	($97,887)	($19,299)	($37,527)	($123,164)
Funds From Operations (FFO)[2]					
FFO	**$31,757**	$29,036	$24,283	$20,092	$16,134
FFO per Share	**$0.70**	$0.67	$0.67	$0.60	$0.54
Share Information					
Weighted Average Number of Shares - Basic	**45,523**	43,393	36,247	33,604	29,653
Weighted Average Number of Shares - Diluted	**52,090**	47,201	36,341	33,630	29,904
Shares Outstanding at December 31	**49,291**	44,972	38,519	34,028	33,393
Unit Price at December 31	**$11.57**	$10.45	$8.80	$4.47	$9.21

(1) Financial results for 2011 and 2010 are based on IFRS. Results for 2007 to 2009 are based on previous Canadian GAAP.

(2) Killam changed its definition of FFO with the adoption of IFRS in 2011. FFO and FFO per share for 2007 to 2009 have been adjusted to reflect this definition.

Corporate Information

Board of Directors

Timothy R. Banks[3]
President & CEO,
APM Group of Companies
Charlottetown, Prince Edward Island

Philip D. Fraser
President & CEO, Killam Properties Inc.
Halifax, Nova Scotia

Robert G. Kay[1]
Chairman,
Springwall Group International
and Springwall Sleep Products Inc.
Moncton, New Brunswick

James C. Lawley[1][2]
General Manager, Scotia Fuels Ltd.
Halifax, Nova Scotia

Arthur G. Lloyd
Executive Vice President Investments,
Western North America,
Ivanhoé Cambridge
Calgary, Alberta

George J. Reti[2][3]
Corporate Director,
Chairman of the Board
Calgary, Alberta

Robert G. Richardson, FCA
Executive Vice President & CFO
Killam Properties Inc.
Halifax, Nova Scotia

Manfred J. Walt, CA[3]
President & CEO, Walt & Co. Inc.
Toronto, Ontario

G. Wayne Watson, CA[1][2]
Corporate Director,
Chairman of the Audit Committee
Halifax, Nova Scotia

(1) member of the Audit Committee
(2) member of the Corporate Governance, Nomination and Succession Committee
(3) member of the Compensation Committee

Executive Team

Philip Fraser
President & Chief Executive Officer

Robert Richardson, FCA
Executive Vice President
& Chief Financial Officer

Ruth Buckle-McIntosh
Vice President, Property Management

Pamela Crowell
Vice President,
Property Management (MHCs)

Keith Foster, CA
Vice President, Finance

Jeremy Jackson
Vice President, Marketing

Michael McLean
Vice President, Development

Dale Noseworthy, CA, CFA
Vice President, Investor Relations
and Corporate Planning

Ronald Barron
Corporate Secretary

Investor Inquiries

Dale Noseworthy, CA, CFA
Vice President, Investor Relations
and Corporate Planning
902.442.0388

Auditors

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Halifax, NS

Solicitors

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Calgary, AB

Stewart McKelvey
Halifax, NS

Registrar and Transfer Agent

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Share Listing

Toronto Stock Exchange (TSX)
Trading Symbol: KMP

Monthly Dividend

January 2011 - May 2011
$0.046668 per share
June 2011 - December 2011
$0.04833 per share

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ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held on Wednesday, May 9, 2012, at 2:00 pm Atlantic Time at the Halifax Marriott Harbourfront Hotel, 1919 Upper Water Street, Halifax, Nova Scotia.

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