



## ANNUAL REPORT 2019



**KILLAM APARTMENT REIT**

# About Killam

## PROFILE

Killam Apartment REIT (Killam) is a growth-oriented real estate investment trust, which owns, operates, manages and develops multi-family apartments, manufactured home communities (MHCs) and commercial properties. Killam's real estate portfolio is located in Atlantic Canada, Ontario, Alberta and British Columbia.

## MISSION

To have caring staff deliver clean, safe, quality housing to tenants who are proud to call our properties home.

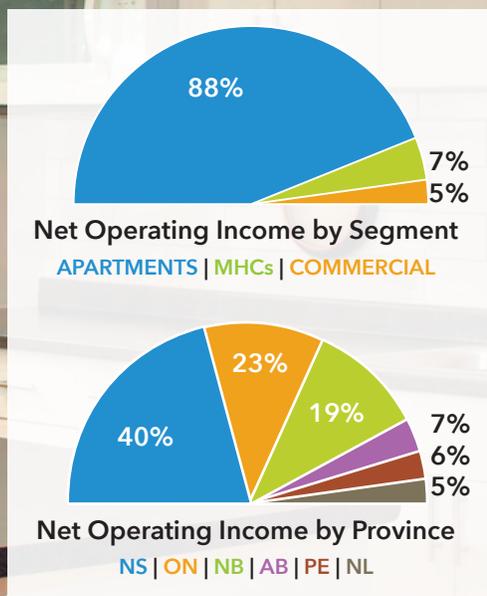
## CORE VALUES



## STRATEGY

Killam's strategy to maximize its value and long-term profitability is focused on three key priorities:

- Increasing earnings from its existing portfolio,
- Expanding the portfolio and diversifying geographically through accretive acquisitions which target newer properties, and
- Developing high-quality properties in its core markets.



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**Westminster Apartments** (London). Suite upgrades are an important part of Killam's value creation and growth strategy.

On the cover, renderings of planned developments including, clockwise from top left: **Latitude** (Ottawa); **The Governor** (Halifax); **The Kay** (Mississauga); **Harley** and **Shorefront** (Charlottetown).

## 2019 Highlights

# 23%

Total Unitholder Return

# 4.3%

Growth in FFO per Unit

# 3.0%

Distribution Increase

# 3.5%

Increase in Same Property Revenue

# 4.1%

Increase in Same Property Net Operating Income

# 43.4%

Debt as a Percentage of Total Assets as at December 31, 2019

# \$191M

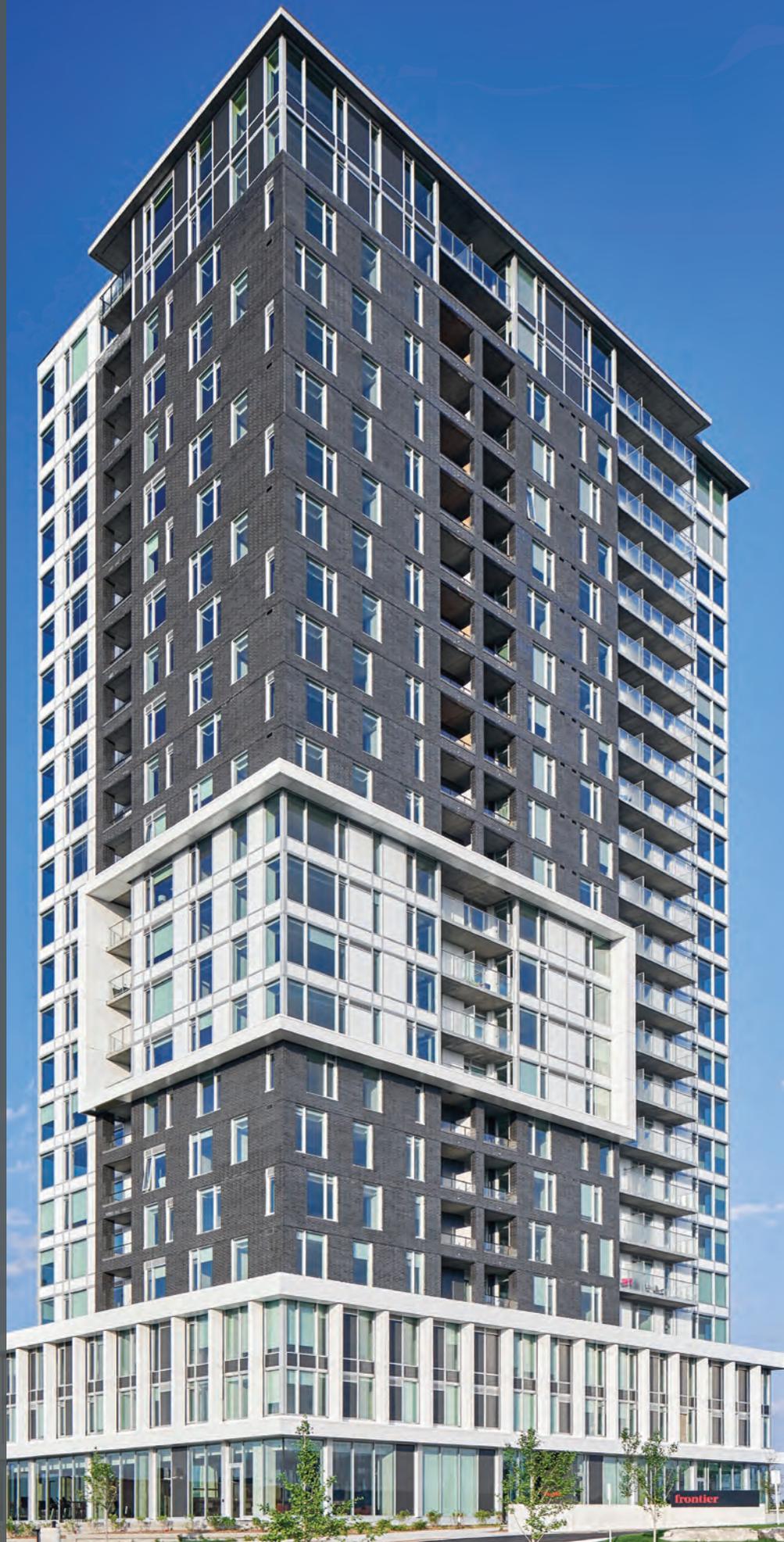
in Acquisitions Completed

# \$42M

Invested in Developments

# \$244M

Fair Value Gains on Investment Properties



# Financial and Operating Highlights

(Value in thousands, except per unit amount and portfolio information)

As at and for the years ended	2019	2018	2017
<b>Operations</b>			
Property revenue	\$241,749	\$215,959	\$187,377
Net operating income (NOI)	\$152,336	\$135,712	\$115,220
Net income	\$283,525	\$175,171	\$104,760
Funds from operations (FFO) <sup>(1)</sup>	\$93,884	\$81,808	\$69,873
FFO per unit (diluted)	\$0.98	\$0.94	\$0.90
Adjusted funds from operations (AFFO) <sup>(2)</sup>	\$76,768	\$66,275	\$55,982
AFFO per unit (diluted)	\$0.80	\$0.76	\$0.72
Distributions declared per unit	\$0.66	\$0.64	\$0.62
AFFO payout ratio	82%	84%	86%
<b>Financial Position</b>			
Total assets	\$3,380,100	\$2,824,406	\$2,311,210
Total liabilities	\$1,777,773	\$1,655,456	\$1,343,488
Total equity	\$1,602,367	\$1,168,950	\$967,722
Units outstanding <sup>(3)</sup>	102,017	90,212	84,428
Total debt as a percent of total assets	43.4%	49.8%	48.7%
Interest coverage ratio	3.20x	3.22x	3.13x
Normalized debt to EBITDA	10.15x	10.62x	10.50x
<b>Portfolio Information</b>			
Apartment units	16,325	15,883	14,983
MHC sites	5,786	5,427	5,165
Commercial square footage	739,000	551,000	254,000
Average rent per apartment unit	\$1,126	\$1,076	\$1,017
Average rent per MHC site	\$261	\$254	\$248

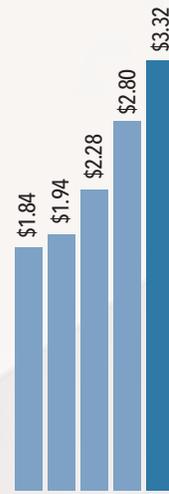
(1) FFO and applicable per unit amounts are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, interest expense related to lease liabilities, insurance proceeds and non-controlling interest. A reconciliation between net income and FFO is included on page 66 of this annual report.

(2) AFFO and applicable per unit amounts and payout ratios are calculated by Killam as FFO less an allowance for maintenance capital expenditures, commercial leasing costs and straight-line commercial rents. A reconciliation from FFO to AFFO is included on page 68, and the calculation of the maintenance capex reserve is included on page 67.

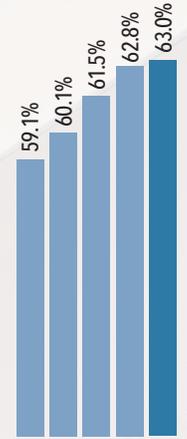
(3) Units outstanding at December 31, 2019, include 97,863,244 REIT units and 4,153,520 exchangeable units.



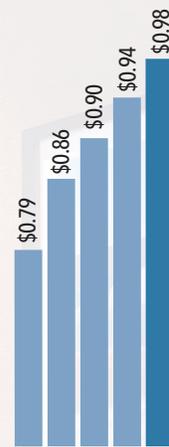
Frontier, Ottawa, ON



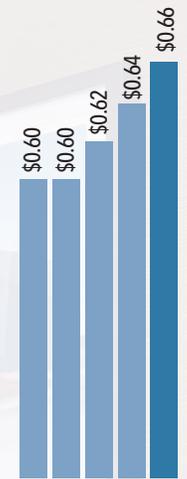
Value of Real Estate Portfolio (\$ billions)



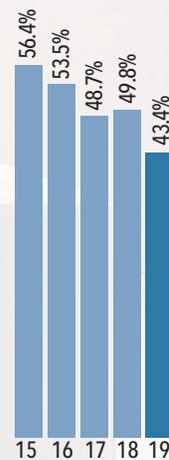
Operating Margin %



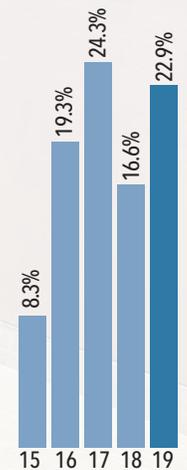
Funds from Operations per Unit (diluted)



Distribution per Unit



Debt as a % of Total Assets



Total Unitholder Return

# 2019 Performance Summary

	2019 Target	2019 Performance
<b>Growth in Same Property NOI</b>	Same property NOI growth of 3% to 5%.	Target met. Same property NOI grew by 4.1%.
<b>Expanded Portfolio</b>	Grow the portfolio to more than \$3.0 billion by the end of 2019, with a minimum acquisition target of \$100 million.	Target exceeded. Killam exceeded both targets, increasing the portfolio to \$3.3 billion and completing \$191.1 million in acquisitions.
<b>Geographic Diversification</b>	Earn at least 30% of 2019 NOI outside Atlantic Canada.	Target met. 30% of 2019 NOI generated outside Atlantic Canada.
<b>Development of High-Quality Properties</b>	To complete Phase I (Frontier) of the Ottawa development, break ground on Silver Spear II, plus one additional development project.	Target met. Frontier completed in June 2019 and the commencement of The Kay (Silver Spear II) development during Q3-2019. Latitude (Phase II of the Ottawa City Centre development) also broke ground in Q2-2019.
<b>Strengthened Balance Sheet</b>	Manage debt as a percentage of total assets ratio below 49%.	Target exceeded. Debt as a percentage of total assets was 43.4% as at December 31, 2019.

**The Factory on Hollis** is a newly designed and renovated commercial space within the historic **Brewery Market** in downtown Halifax. The Factory offers tenants modern amenities and is connected to Killam's newest Halifax multi-family development, **The Alexander**.

**THE FACTORY**  
ON HOLLIS



# Letter to Unitholders

Dear Unitholder,

I am pleased to report on another very positive year for Killam. In addition to achieving strong earnings growth and a 23% total return for unitholders, we were successful in meeting our strategic targets for the year. In addition, apartment



fundamentals are the strongest we've seen in Killam's 20-year history: increased population growth, demographic trends supporting a preference for renting and continued low interest rates.

We made important enhancements to our sustainability efforts and disclosure over the past year. Killam has a long history of investing in energy initiatives and being a responsible corporate citizen. With an increased focus on environmental, social and governance (ESG) from

**In addition to achieving strong earnings growth and a 23% total return for unitholders, we were successful in meeting our strategic targets for the year.**

the investment community, we are committed to position Killam as a leader in sustainability amongst our real estate peers. Please refer to the ESG section of this annual report to learn about the many sustainability highlights and achievements from 2019, and our goals for 2020.

We remain committed to maximizing Killam's value and long-term profitability by concentrating on three key areas of growth:

- 1) increasing earnings from our existing portfolio;
- 2) expanding our portfolio and diversifying geographically through accretive acquisitions, which targets new properties; and
- 3) developing high-quality properties in our core markets.

We are seeing the positive results from this focus, with all three areas contributing to earnings growth in 2019.

## Strong Growth from Our Existing Portfolio

Increasing earnings from our existing portfolio is important in achieving long-term earnings growth, and the portfolio performed very well in 2019. Growing rental rates and occupancy gains

contributed to top-line same property growth of 3.5%. Overall, Killam's same property portfolio achieved net operating income growth of 4.1%. The Halifax apartment portfolio, representing 36% of net operating income, was especially strong in 2019, as were the Ontario and New Brunswick portfolios.

Killam's team of more than 650 committed employees does an outstanding job of providing exceptional service to our residents and ensuring properties are well maintained and perform at their best. This is reflected in the feedback we receive from our annual resident survey administered by an independent market research firm. The results of last year's survey showed that 88% of Killam residents are satisfied with Killam as a landlord. We believe these results are among the strongest in the industry. I'm very proud of our team.

### Growing rental rates and occupancy gains contributed to top-line growth of 3.5%.

We continue to execute on initiatives to increase the value of our existing portfolio base, including investing in suite renovations and energy initiatives. Market demand for our newly renovated rental units is healthy across the portfolio and, in response, Killam has accelerated its suite repositioning program. In 2019 we upgraded and renovated 300 units that are expected to generate an aggregate \$1 million in additional net operating income. We

are increasing the program again in 2020, targeting 500 units for renovation. Killam's opportunity to drive value from this program is expansive, as we have identified 3,000 additional units for future repositionings across all our core markets.

Other key operating initiatives include active management of expenses to optimize net operating income in conjunction with sustainability. During 2019, Killam completed the third year of its five-year \$25 million energy efficiency plan focused on energy savings. These projects helped to lessen Killam's carbon footprint while mitigating the impact of expense increases from rising energy rates and other inflationary pressures. Additional details around our energy initiatives are included in Killam's ESG Report.

### Portfolio Growth Through Acquisitions

This past year was another busy one on the acquisition front. We acquired \$191 million in acquisitions, with over half of the capital deployed in Ontario and Alberta. We continue to execute on our strategy of increasing the percentage of our earnings generated outside Atlantic Canada.

Killam generated 30% of its NOI outside Atlantic Canada in 2019, and we are on our way to achieving our target of generating 37% of earnings outside Atlantic Canada by 2022. Our strong operating platform can support a larger portfolio, and expanding in Ontario and Western Canada gives us access to more of Canada's largest rental markets.

We grew our portfolio further geographically in 2020. In January 2020, we expanded our apartment portfolio to Victoria, BC, with the acquisition of a 161-unit property and are looking for more opportunities in the area. In adding the strong Victoria market to our portfolio, we are now a coast-to-coast REIT.

### Development Expertise Driving Value

We continue to be passionate developers. Since we started developing our own assets ten years ago, we have completed more than ten development projects in five provinces consisting of 1,200 units at a cost of approximately \$285 million. We are seeing the benefit of our established development process and experienced development team.

During 2019, we completed and leased up Frontier, a 228-unit building located in Ottawa that we co-developed with RioCan. The project was completed on time and on budget, contributing to both earnings and fair value gains in the year.

We start 2020 with four development projects underway, including projects in Ottawa, Mississauga and Charlottetown. The Mississauga development, The Kay, is a \$56 million property located adjacent to an existing Killam asset, Silver Spear Apartments. We are pleased to have acquired 100% interest in both these GTA-based assets during 2019 and look forward to delivering the 128-unit new development to the strong Toronto market in 2021.

In addition, we expect to begin two other developments in 2020, including a 170-unit property in Kitchener. With a development pipeline of approximately 2,600 units, development will continue to be an important part of Killam's growth strategy.

### Advances in Technology

We are embracing change and investing in technology across the organization: at our existing properties, in our new developments and in how we manage the business. We believe the future of the multi-family real estate business is to build new buildings to be green and efficient, with geothermal heating, solar photovoltaic (PV) panels with battery storage capacity and unit-level metered water.

The digital transformation underway across the sector is changing how we do business, and I'm proud that we have the team to take on the challenge.

Killam rolled out a new customer relationship management (CRM) platform in 2019, automating and fully integrating our online leasing, marketing and customer relationship process. In addition, investments in a business intelligence platform to harnessing the power of the data stored across our systems is leading to faster and more informed decision making. The digital transformation underway across the sector is changing how we do business, and I'm proud that we have the team to take on the challenge.

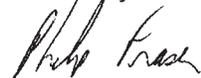
### 2020 Outlook

Killam's Board of Trustees approved a 3.0% increase in Killam's distribution to \$0.68 per unit, up from \$0.66 per unit during its February 2020 meeting. This marks the fourth annual distribution increase in a row.

We entered 2020 with significant momentum. Nevertheless, we are well positioned to adjust and adapt to the daily changes that are resulting from the COVID-19 pandemic that is presently affecting our country and financial markets. I am proud of the responsiveness and professionalism the group has taken in keeping our residents informed and safe. It is top of mind every day to ensure we are making proactive changes and contingency plans to minimize the risk and impact to our employees, residents and unitholders.

Thank you for your interest and investment in Killam. Killam's annual unitholders' meeting will be held on May 7th, 2020, at 1:30 PM Atlantic Time at 3700 Kempt Road, Halifax, Nova Scotia. I encourage you to join via webcast if possible, as we are proactively committed to social distancing this year. I look forward to providing progress updates on our strategic initiatives over the coming months.

Yours truly,



Philip Fraser

President & CEO

## GROWING EARNINGS FROM KILLAM'S EXISTING PORTFOLIO

Increasing the earnings from our existing portfolio is an important strategy to create long-term value. During 2019, we delivered 3.5% revenue growth from our same property portfolio, which includes those properties owned for more than two years. Strong market fundamentals such as revenue growth and energy efficiency savings further drove same property earnings, resulting in 4.1% same property NOI growth. Occupancy levels and rental rates in many core markets reached record highs as population growth and demand out-paced the housing market supply.

We have an extensive capital investment program to ensure our properties are well maintained and meet our high standard for curb appeal. We invest in progressive and innovative processes as we continue to leverage and develop our operating platforms.

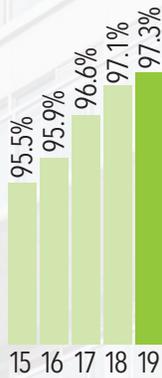
We fully implemented an automated customer relationship management platform in 2019, giving Killam the ability to deliver high-quality service to residents and prospective residents while optimizing rental opportunities and minimizing vacancy.





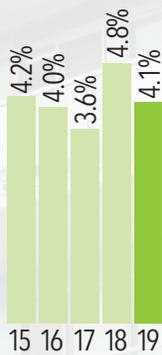
### Same Property Average Rental Rate Growth

Same property average rental rates have consistently improved each year for the past four years due to strong market fundamentals and Killam's revenue-enhancing programs.



### Same Property Apartment Occupancy

Killam's same property apartment portfolio achieved a record-high 97.3% occupancy in 2019. Occupancy levels were particularly strong in the Maritimes and Ontario due to immigration and demographics.



### Same Property Net Operating Income Growth

Same property NOI increased 4.1% in 2019 due to strong revenue growth, and expenses increased by only 2.4%. Killam achieved a 40 basis point improvement in its operating margin to a record high of 63.0%.



# GROWING THROUGH ACQUISITIONS

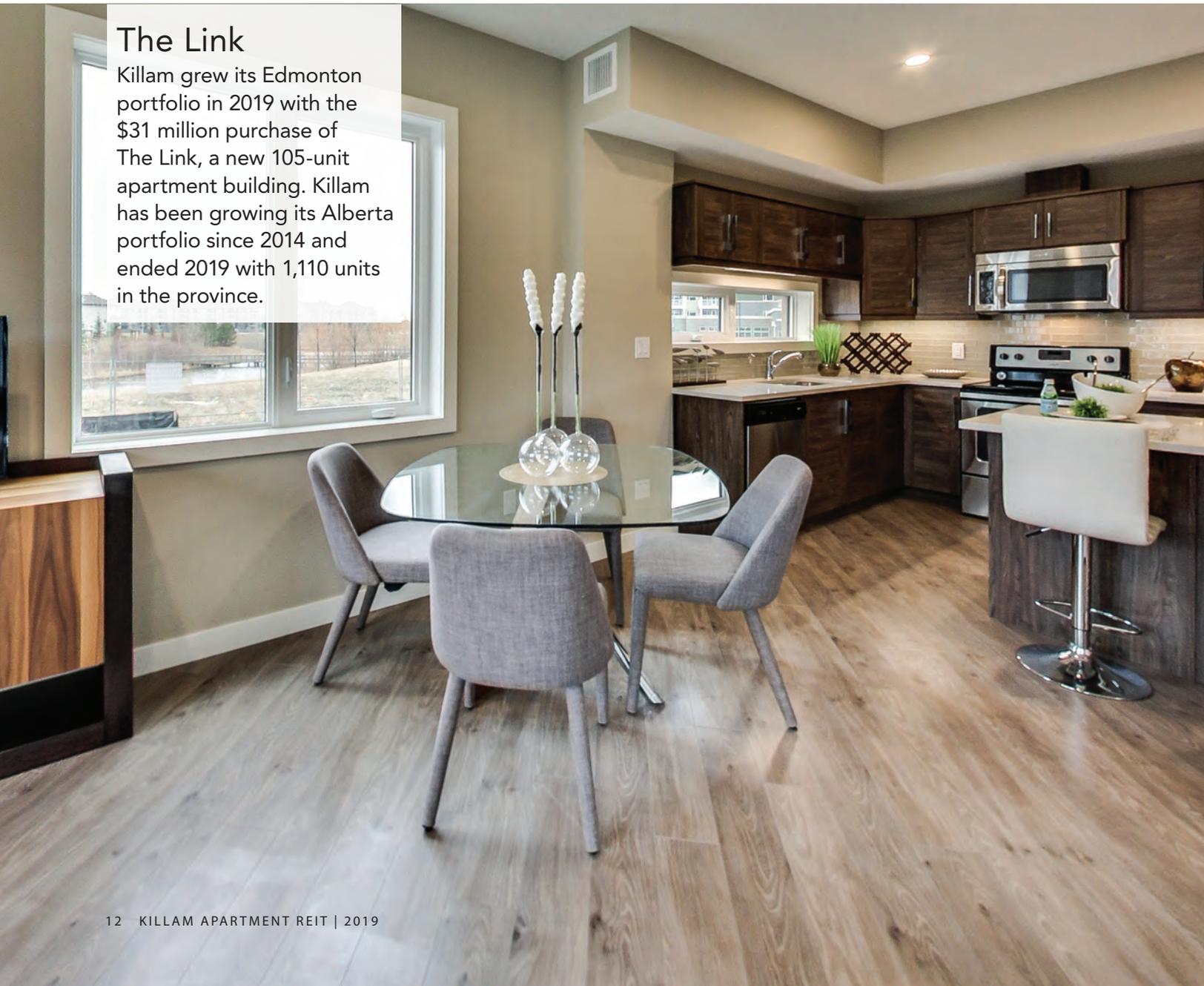
Acquisitions have always been an integral part of Killam's growth strategy. In 2019, Killam acquired \$191 million of assets, adding 640 apartment units, approximately 220,000 square feet of commercial space and 359 MHC sites to its portfolio.

These acquisitions expanded our presence in Ontario, Alberta, PEI and New Brunswick.

Killam continued to execute its strategy of increasing the percentage of its NOI generated outside Atlantic Canada, with an increase from 27% in 2018 to 30% in 2019. More than half of the acquisitions in 2019 were in Ontario and Alberta.

## The Link

Killam grew its Edmonton portfolio in 2019 with the \$31 million purchase of The Link, a new 105-unit apartment building. Killam has been growing its Alberta portfolio since 2014 and ended 2019 with 1,110 units in the province.





## Dieppe Village

Dieppe Village was added to Killam's Moncton portfolio in June 2019. This \$28M property consists of 127 residential units and 45,500 square feet of grocery-anchored commercial space located in the fast-growing community of Dieppe. The purchase also included 2.5 acres of vacant land for future residential development.



## Grid 5/Silver Spear

Killam was pleased to purchase the remaining 50% interest in two properties that we managed and partially owned for more than five years. Grid 5, a 307-unit building located in Calgary, and Silver Spear, a 199-unit building in Mississauga, are both quality assets key in the expansion of Killam's asset base outside Atlantic Canada. As well, this purchase included the site for a 128-unit development, The Kay, adjacent to Silver Spear, which broke ground in Q3-2019.

## Charlottetown Mall

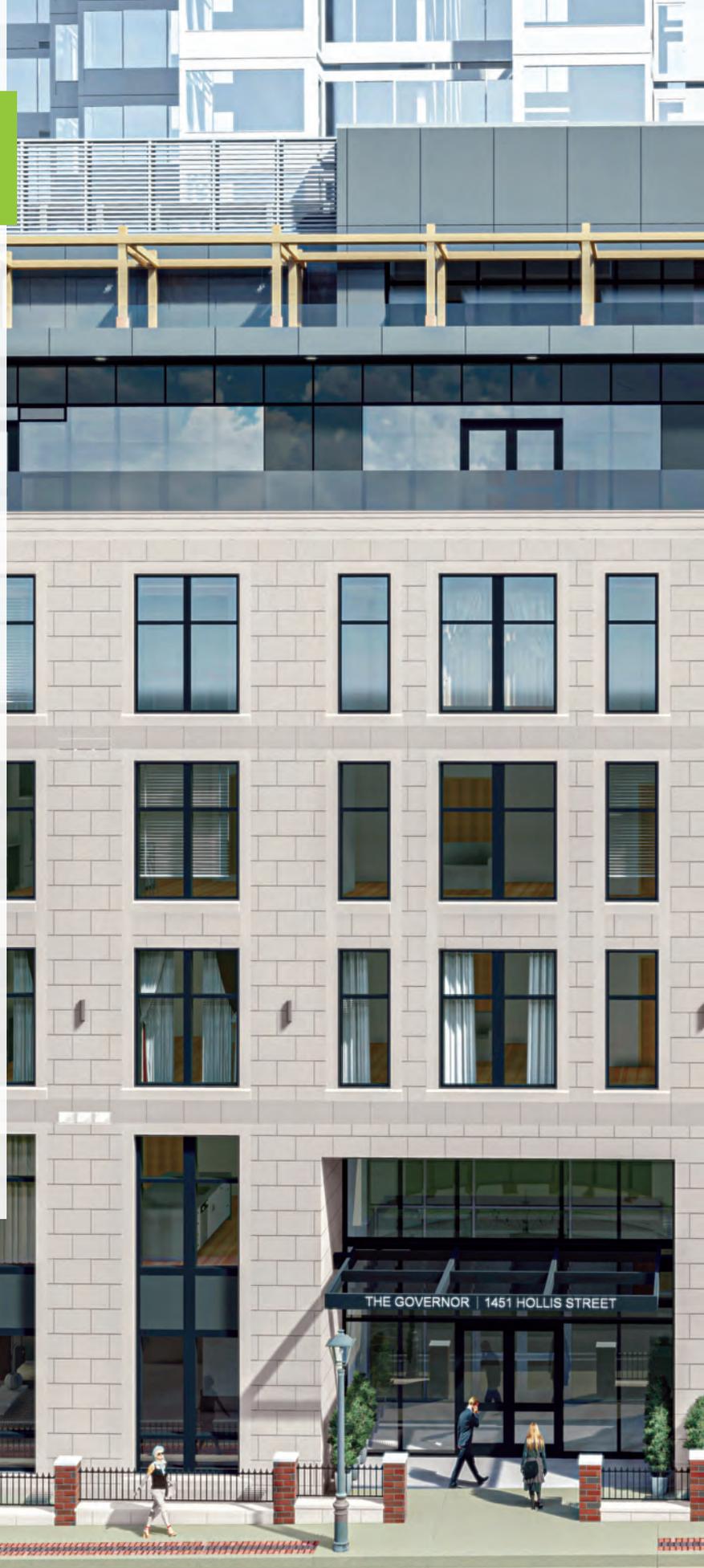
Killam has been strategically purchasing commercial centres in its core markets with multi-family development potential. In May 2019, Killam acquired a 50% interest in the Charlottetown Mall. This 352,000 square-foot retail complex features a stabilized, grocery-anchored, enclosed mall located in the heart of PEI's busiest retail node. We are working on plans to redevelop and maximize the retail operations, as well as provide opportunity for a development containing up to 300 units on the 32-acre site.



## GROWING THROUGH DEVELOPMENTS

Developing high-quality properties in our core markets is an important component of Killam's growth strategy. To date, Killam has completed over \$285 million in development projects totalling more than 1,200 units. The value of these projects today is approximately \$350 million, representing a 25% gain over their development costs. In June 2019, Killam completed the 228-unit Frontier in Ottawa, which was co-developed with RioCan. Frontier was completed on budget and with a quick lease-up.

Killam has four additional projects underway in Mississauga, Ottawa and Charlottetown, and expects to break ground on two new builds in 2020. With this current robust activity, Killam expects to complete a minimum of \$200 million in developments in the next three years. Killam has an experienced development team and growing pipeline of more than 2,600 units across Canada that will continue to be a significant lever for Killam's earnings growth and value creation.



## Harley Street

This is a redevelopment site in Charlottetown, replacing an original three-storey, 29-unit building with a new four-storey, 38-unit building. Killam broke ground in the third quarter of 2019 and expects this project to be completed by the end of 2020.



## The Kay

Killam broke ground on The Kay in Mississauga in the third quarter of 2019. Killam was pleased to have purchased the remaining 50% of this 128-unit development in June 2019. The Kay is expected to be completed in mid-2021, expanding Killam's presence in the highly sought-after Greater Toronto Area market.

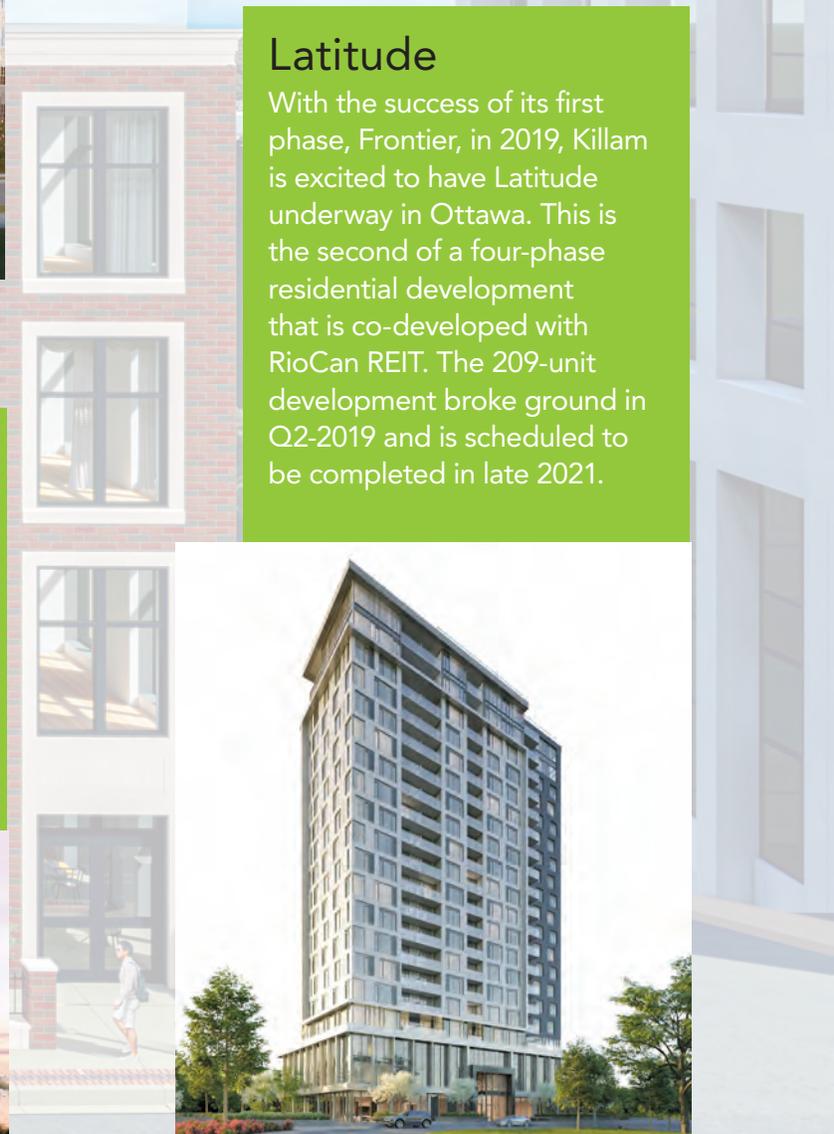


## Latitude

With the success of its first phase, Frontier, in 2019, Killam is excited to have Latitude underway in Ottawa. This is the second of a four-phase residential development that is co-developed with RioCan REIT. The 209-unit development broke ground in Q2-2019 and is scheduled to be completed in late 2021.

## Shorefront

Killam's 78-unit Shorefront development is located in one of Canada's strongest rental markets. Driven by immigration, the demand for new rental product in Charlottetown is substantial, and we expect a fast lease-up following a mid-2020 opening.



# 2019 Environmental, Social and Governance Report

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# Letter from the President & CEO

We are pleased to present Killam's 2019 Environmental, Social and Governance (ESG) Report. We believe sustainability is a vital component to Killam's long-term success.

2019 was an excellent year for Killam on many fronts. We not only had strong operating and financial performance, we were also successful in enhancing our enterprise risk management program and moving forward with new ESG initiatives. Killam has always taken its responsibility regarding corporate citizenship seriously, and our core values reflect 20 years of commitment to these environmental, social and governance issues.

Killam's Board of Trustees and governance processes are another key to our success. Our eight non-executive trustees bring significant real estate, corporate finance, government relations and management expertise to Killam. Our Governance & ESG Committee has oversight and reviews our ESG program, as well as monitors Killam's performance towards its ESG goals.

We are dedicated to reducing our environmental impact and lowering our carbon footprint by improving the efficiency of our current buildings and developing energy-efficient apartments. We recently completed our third year of a five-year, \$25-million energy program, and our investments have already led to significant reductions in water consumption and greenhouse gas (GHG) emissions. In 2019, we completed our first development project that incorporated geothermal heating. We currently have four developments under construction that incorporate technologies that maximize energy and water efficiencies, including geothermal or solar heating, innovative building insulation solutions and water sub-metering. Investing in energy initiatives reduces our carbon footprint and leads to higher operating margins and earnings.

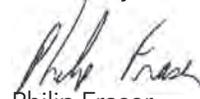
We are building stronger communities. We have passionate employees who dedicate their time and energy to a multitude of causes and charities. Killam increased its employees' participation in its paid community volunteer day program and supported our employees spending over 550 hours volunteering at a variety of charitable organizations, some of which we highlight in this report. We understand affordability concerns across the country and are part of the solution; we provide more than 750 subsidized affordable housing units. In addition, we donate furnished suites to hospitals across our markets and contribute financially to an array of community organizations.

In 2019, we participated in the Global Real Estate Sustainability Benchmark (GRESB) rating, a well-known global ESG benchmark for real assets which measures performance against sustainability benchmarks including energy use, GHG emissions, water and waste, performance improvement programs and community engagement. We are pleased with our initial submission and are pursuing even more improvements that we will share with you in mid-2020.

Sustainability remains a priority at Killam. We are proud of our achievements within the ESG space. We are committed to creating and maintaining sustainable communities that benefit all stakeholders.

We are aware of the increasing importance of ESG to all stakeholders and we plan to be a leader in sustainability. This report highlights our commitment to ESG issues. We thank you for taking the time to read more about our ESG accomplishments and plans.

Yours truly,



Philip Fraser

President & CEO



# Our Sustainability Policy

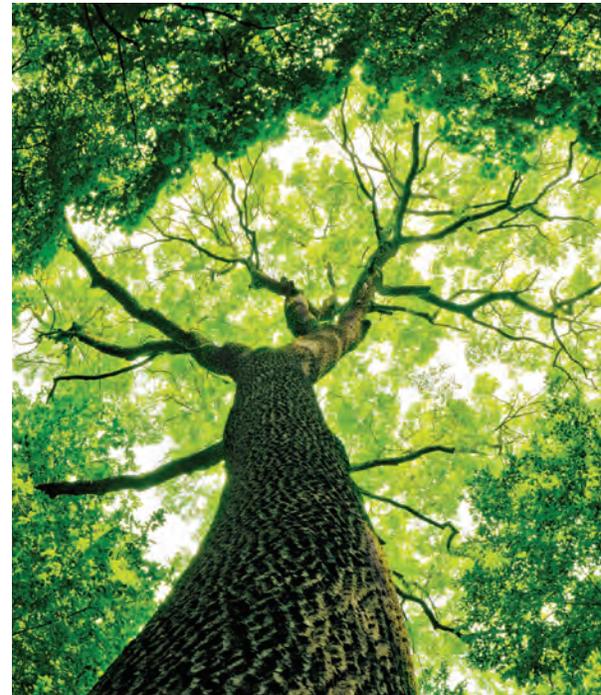
Killam is a leader in ESG practices within the Canadian multi-residential real estate sector, and our sustainability policy emphasizes our commitment. The policy applies to all Killam employees. It is recommended by the Governance and ESG Committee and approved by the Board of Trustees. The following is Killam's commitment to ESG, included in the ESG policy:

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

## Our ESG Strategy

Killam launched an internal ESG Oversight Committee in early 2019 to provide guidance and ensure the integration of ESG into Killam's strategic objectives. This committee consists of a select interdisciplinary group representing multiple departments across the REIT. This committee is responsible for our ESG strategy and championing the ESG initiatives throughout the year. In addition, management regularly reports progress against ESG targets to the Board's Governance and ESG Committee.

Our approach is also underlined by our Core Values of *Build Community* and *Do the Right Thing*. Killam works proactively and diligently to monitor and reduce our environmental footprint, to ensure effective and ethical governance and to invest in ways that stimulate sustainable economic growth. We incorporate sustainable practices in our operating, developing, investing and corporate activities.



## Performance Against 2019 Targets

In our 2018 ESG report, we highlighted our targets for 2019.

### ENERGY CONSUMPTION

**Goal:** Invest \$5 million in energy-efficiency initiatives.  
**Performance:** Invested \$5 million in energy projects with a payback of 5.6 years.

### GREENHOUSE GAS EMISSIONS

**Goal:** Reduce GHG by 3%.  
**Performance:** In 2019, Killam's GHG intensity decreased by 2.1%, measured on a KgCO<sub>2</sub>e/SF basis<sup>(1)</sup>.

### RATING PARTICIPATION

**Goal:** Participate in initial GRESB rating.  
**Performance:** Completed initial GRESB assessment and actioned areas of improvement.

### SOCIAL INITIATIVES

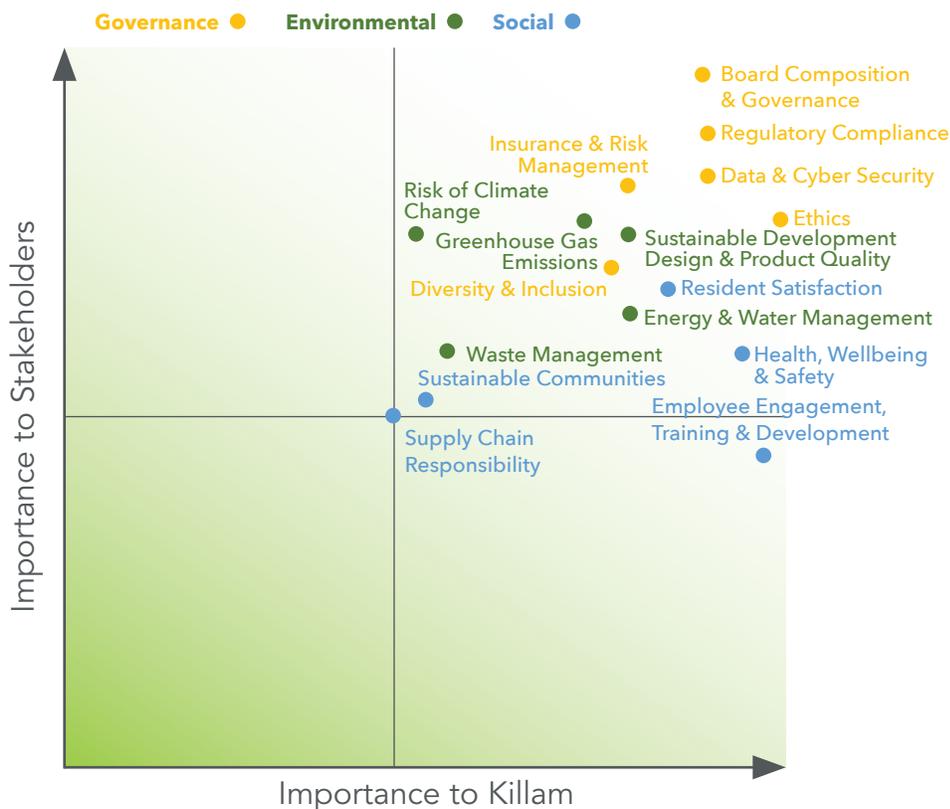
**Goal:** Invest in social initiatives, focusing both on our people and our communities.  
**Performance:** Hosted dozens of resident and community events across Killam's portfolio.

(1) In early 2019, Killam changed the way it measures GHG, to be more aligned with industry norms. See "Emissions Matter" on page 22.

# Materiality Assessment

In 2019, Killam conducted an ESG materiality assessment to identify, assess and prioritize the ESG topics most significant to our organization, our employees and our external stakeholders, which include residents, investors, analysts, trustees, peers and communities. Through this process, we gained understanding of our greatest ESG impacts, opportunities and risks.

The top right-hand quadrant of the following matrix shows the ESG factors that are most important to Killam. This report focuses on the topics that are of highest importance and most relevant to internal and external stakeholders.



This assessment guides our sustainability improvement activities and annual reporting process. It is also a key procedure that is required for compliance with the GRI sustainability reporting standards (GRI Standards) and allows us to deliver a more comprehensive ESG report. We will ensure the most material issues are addressed in this report, providing better insight into our ESG performance.

## 2020 Targets

Killam's ESG Oversight Committee has confirmed the following as primary targets for 2020:

<p><b>ENERGY CONSUMPTION</b></p> <p><b>Goal:</b> Invest up to \$7 million in energy-efficiency initiatives including 1,000 kW of new solar panel installations.</p>	<p><b>RATING PARTICIPATION</b></p> <p><b>Goal:</b> Increase Killam's GRESB rating by 15 points.</p>	<p><b>SOCIAL INITIATIVES</b></p> <p><b>Goal:</b> Increase employee volunteer days by 25%.</p> <p><b>Goal:</b> Improve the asset level ESG scorecard ratings.</p>
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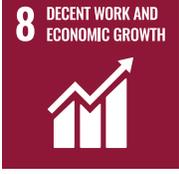
# 2019 Highlights and Achievements

 <p>Engaged leaders across the REIT to form an ESG oversight committee to provide guidance and ensure the integration of ESG into Killam's strategic objectives.</p>	 <p>Donated over \$300,000 in cash and in-kind gifts to support organizations across Canada.</p>
 <p>Completed an independent 2018 greenhouse gas consumption review to ensure accurate baseline and benchmarking.</p>	 <p>Submitted initial GRESB assessment. GRESB validates, scores and benchmarks ESG performance data for real estate entities.</p>
 <p>Created a sustainability scorecard for all property managers to promote and measure initiatives across the portfolio.</p>	 <p>Completed a materiality assessment of Killam's largest risk factors that will guide Killam's sustainable development improvement activities.</p>
 <p>Implemented additional environmental policies and due diligence procedures.</p>	 <p>Hosted dozens of resident and community events across the portfolio.</p>
 <p>Redesigned our urban landscaping plan to become more sustainable and hosted our first tree planting day.</p>	 <p>Achieved 88% resident satisfaction rating in annual resident survey.</p>
 <p>Supported affordable housing with more than 750 subsidized units through community partnerships.</p>	 <p>Increased employee communication and engagement, including hosting Killam's first Killam Day.</p>

## United Nation's Sustainable Development Goals (SDGs)

In September 2015, Canada and all other 192 United Nations Member States adopted the 2030 Agenda for Sustainable Development at the UN General Assembly. This initiative is a global call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. This 2030 Agenda is broken down into 17 global goals that countries, organizations, businesses and individuals alike are working towards.

Killam has assessed these goals and we have aligned our corporate sustainability targets with the United Nation's SDGs. Although the vast majority of the SDGs can be supported by our business and employees, we believe we can make a difference and impact the following four goals with these action items:

United Nation's Sustainable Development Goals	Killam's Goals
 <p><b>7</b> AFFORDABLE AND CLEAN ENERGY</p>	<p>Ensure access to affordable, reliable and modern energy services.</p> <p>Install 1,000 kW of solar installations in 2020.</p> <p>Invest in geothermal heating and cooling systems in new developments.</p>
 <p><b>8</b> DECENT WORK AND ECONOMIC GROWTH</p>	<p>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.</p> <p>Increase employee satisfaction survey respondents by 5 points, to ensure all employees have an opportunity to express their views on any and all areas, in order to help guide improvement at Killam.</p>
 <p><b>11</b> SUSTAINABLE CITIES AND COMMUNITIES</p>	<p>Make cities and human settlements inclusive, safe, resilient and sustainable.</p> <p>Complete three developments in the next three years with geothermal heating and cooling, low flow toilets and LED lighting.</p> <p>Ensure all properties provide adequate and safe housing, upgrading 400-500 suites in 2020 to be more energy efficient and sustainable.</p> <p>Invest up to \$7 million in energy-efficient upgrades in 2020.</p> <p>Invest up to \$75 million in capital projects for 2020 aimed at sustaining and improving Killam's portfolio.</p>
 <p><b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	<p>Ensure sustainable production and consumption patterns.</p> <p>Annually monitor, analyze and verify water and energy consumption, along with greenhouse gas emissions with targeted reductions.</p>

# ENVIRONMENT

## Energy

At Killam, we use resources in a responsible manner to preserve and protect the environment. Integrating sustainable opportunities into our processes and decisions is the right thing to do and results in operating cost savings.

### Greenhouse Gas Emissions and Climate Change

Operating a multi-residential portfolio of more than 16,000 apartment units across Canada requires a significant amount of energy, and consequently greenhouse gas emissions. These emissions contribute to the global climate crisis we face today, as well as the dangerous shifts in the world's climate and extreme weather conditions. The burning of fossil fuels like coal, oil and gas for electricity, heat and transportation is the primary source of human-generated emissions.

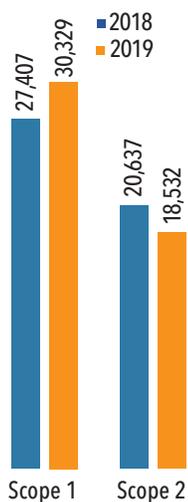
Killam strives to seek operational efficiencies to reduce resource consumption and dependence on fossil fuels, therefore reducing our carbon footprint. Changing the way we develop and operate our portfolio is our part of helping to combat global warming.

### Emissions Matter

Our team has been tracking Killam's GHG emissions since 2016. Since commencing a five-year, \$25 million energy-efficiency program in 2016, we have internally tracked our GHG intensity and realized a 15% reduction over the first three years (2016-2018). This measure accounted for water consumption as well as energy intensity.

In the past year we took this a step further by engaging an independent party to review our greenhouse gas emissions data for 2018 and 2019. This was to ensure accurate baseline and benchmarking for future years. Killam has measured its footprint and reported scope 1 and scope 2 greenhouse gas emissions below:

Killam-managed GHG Emissions (tCO<sub>2</sub>e)



Killam's GHG emission sources include: electricity, natural gas, propane, oil and steam.

Scope 1 includes all direct emissions, and scope 2 includes indirect emissions.

*Note: Killam has excluded scope 3 emissions, which take into account all other indirect emissions, including tenant-controlled utilities. Killam has committed to measure scope 1 and 2, in compliance with ISO 14064-1. Scope 1 includes all direct emissions generated and managed by Killam, including building fuel consumption and fleet vehicles. Scope 2 includes indirect emissions, purchased steam and electricity paid for by Killam. All scope 1, 2 and 3 GHG inventory excludes refrigerant leakage, upstream and downstream activities associated with our business operations, new developments and off-site waste management.*

### 7 AFFORDABLE AND CLEAN ENERGY



For the past four years, calculating the energy our portfolio consumes has been important to Killam. This data helps support our efficiency initiatives to better manage our properties and make them more resource efficient, and it aligns with the United Nation's SDG 7: Affordable and Clean Energy that we are working towards.

# Investing in Energy Efficiencies

Killam has a long history of investing in energy efficiencies. When natural gas was first introduced to the market in Atlantic Canada in 2004, Killam was an early adopter. We converted over 98% of the portfolio in Nova Scotia and New Brunswick from oil burning boilers to cleaner natural gas within six years. This rapid adoption and conversion to natural gas has led to significant GHG reductions; over 50,000 tons of GHG reductions have been achieved in the last 15 years from smart fuel switching. Eliminating the use and storage of oil on-site has also greatly diminished Killam's environmental risk associated with older properties.

Killam will continue to build on its successes to make buildings more sustainable and resilient to the impacts of climate change. Killam's green future is on track given the advanced building technologies we are planning and piloting now. As Killam grows through new development and acquisitions, we challenge ourselves to ensure our impact on the environment is minimized. Our portfolio of more than 200 properties provides opportunities to invest in projects that improve the long-term sustainability of our assets, while generating average annual returns of over 15%.

With a minimum of \$5 million dedicated annually to energy-efficiency projects, we invest a significant amount of our overall capital budget in gaining operating efficiencies, lowering operating costs and reducing our impact on the environment.



## LED Lighting

In 2017-2019 Killam identified, designed and retrofitted 100% of its portfolio with LED lighting. With over 5 million kilowatt-hours being saved annually, buildings are not only consuming less electricity, Killam has seen improved lighting levels and reduced maintenance costs with the LED program.



## Water Conservation

Killam's properties use 2 million cubic meters of water each year and we strive to reduce water consumption across our portfolio. To align with the United Nation's *SDG 12: Responsible Consumption and Production*, we are implementing solutions in both common areas and apartment units to help conservation efforts.

Killam has completed the installation of low-flow toilets in more than 11,350 units in our portfolio. Since the program started in 2015, over 700,000 cubic meters of water have been saved by Killam and our residents. As well, newer developments such as Saginaw Park and Frontier, which opened in 2018 and 2019, are sub-metering water usage at the resident level.



## Solar

Killam has operational solar thermal heating systems at four properties. These systems together save approximately 2,800 gigajoules (GJ) of natural gas usage to heat domestic hot water.

In 2020, Killam expects to invest up to \$3 million in a minimum of 1,000 kW of new solar projects. This will produce an estimated annual 1.1 gigawatts of power (that's enough energy to offset 5 million kilometers driven by an average passenger vehicle!). As the cost of solar continues to decline, Killam expects to implement solar at more properties. As not all properties are suitable for on-site solar or have limited roof area to meet energy needs, we are exploring purchasing off-site renewable electricity.



## Geothermal

Killam is committed to increasing its investment in geothermal heating and cooling. In London, Ontario, Killam's 180 Mill Street property has a geothermal heating and cooling system that takes water from an underground stream, which is then pumped through a heat exchanger to individual heat pumps in each apartment unit. Phase one of a new 840-unit development, Frontier, opened in June 2019 in Ottawa, and also incorporates geothermal heating and cooling. Killam has two developments currently under construction (phase two of the 840-unit Ottawa development and a 128-unit apartment The Kay, in Mississauga) and both have geothermal heating and cooling systems installed.



### Recycling and Waste Management

We seek to continuously improve and maintain our buildings, with a focus on reducing waste, energy and water consumption. To achieve this, we have been finding practical solutions that make the highest impact in reducing the environmental footprint. Recycling, composting and waste management programs are available at the majority of our properties, and a concentrated effort is being made by our employees and our residents to reduce waste that ends up in landfills.



### Renovating to Maximize Efficiencies

Killam has an extensive suite renovation program that allows it to improve energy efficiency and sustainability throughout the apartment portfolio, while delivering upgraded amenities to our residents.

We want to improve and maintain our buildings with a focus on reducing water, energy and waste. In addition to LED lighting and low-flow toilet installations on the majority of our portfolio, there is a demand for upgraded units across our portfolio.

With an apartment upgrade, we improve unit performance and comfort by installing the following:

- Energy Star kitchen appliances
- Energy-efficient lighting
- Luxury vinyl plank flooring (water resistant)
- Programmable thermostats
- Low-odor paint
- Low-flow faucets, shower heads and toilets



### Acquisitions

During our acquisition due diligence process, Killam analyzes and considers a potential asset's features and its ability to contribute to sustainability and the long-term value of our stakeholders. We consider the potential acquisition's location, density, amenities, as well as the safety features of the property. As part of our due diligence, we also consider opportunities to make the building "greener" through capital investments in lower energy and water usage.

### Carbon Neutral Flooring

In 2019, Killam purchased 22,260 square meters of carbon neutral flooring, resulting in the retirement of 230 tCO<sub>2</sub>, which is equivalent to 901,575 km of car travel.





## Development

Our more than \$280 million in new developments have been designed and built using strategies aimed at improving performance across important metrics, including energy savings, water efficiency, the stewardship of resources and a sensitivity to the environmental impact. We focus our development activity in urban cores and in highly walkable suburban sub-markets. We use technology and renewable resources whenever feasible with the intent to create green and sustainable homes for our residents. From LED lighting and motion sensing technology to geothermal heating and in-suite green switches, energy conservation and a low carbon footprint are important components of our development designs.

## Renewable Resources

Killam is committed to increasing its investment in geothermal heating and cooling. Phase one of a new 840-unit development, Frontier, opened in June 2019 in Ottawa, and incorporates geothermal heating and cooling. Killam has two developments currently under construction (phase two of the 840-unit Ottawa development and a 128-unit apartment The Kay, in Mississauga) and both have geothermal heating and cooling systems installed.



Solar PV systems are another option Killam's development team considers in the design of our buildings. In 2019, Killam installed a solar PV 100 kW system on its current 78-unit Shorefront development in Charlottetown, which will be completed in mid-2020. We are committed to pursuing renewable resources as the primary heating and cooling source for all new developments.



## Electric Vehicle Chargers and Sustainable Transportation

Killam has seven properties with on-site electric vehicle (EV) charging stations for residents. All new developments being built by Killam will incorporate EV chargers. In addition to supporting electrification of transportation, Killam is developing in urbanized environments that support direct access to public transportation. An example of this is the new Frontier development in Ottawa, which is adjacent to the city's newly expanded light-rail transit network.

## Sub-Metered Water

Killam now incorporates separately metered water consumption with all its new developments. Starting with two developments completed in 2018 and 2019, residents are responsible for their water usage. This reduces Killam's exposure to water costs and promotes conservative water use by residents.



## Changing the Landscape

Killam is changing focus from traditional methods of grassed areas to a more eco-friendly substitute.

During the spring of 2020, Killam is rolling out a pilot project involving the over-seeding of 20+ properties with white clover (*Trifolium repens*). White clover has many benefits as an alternative to traditional grass, both aesthetically and environmentally.

- White clover stays lush and green throughout the summer with little or no irrigation.
- It grows just 2"-8" in height, requiring less frequent mowing, which will decrease Killam's carbon footprint.
- The clover flower heads attract and provide pollen for beneficial insects.
- Clover is nitrogen fixing, with no need for additional fertilization or herbicides, as it naturally out-competes other weeds.
- It is tolerant of a range of soil qualities and is immune to pet waste and road salt.

Killam plans to implement eco-friendly clover lawns across Killam's coast to coast portfolio in the near future.

# Featured Communities | Frontier & Saginaw Park



## Saginaw Park

At Killam's Saginaw Park development, opened in 2018, shifting the water consumption to our residents has become a significant conservation effort. We have seen a 25% reduction in water consumption over a 12-month period compared to an adjacent and identical development that is not sub-metered, Saginaw Gardens.

## Frontier

Frontier is a 228-unit, 23-storey development in the Gloucester neighborhood of Canada's capital city, Ottawa. This building is the first of a four-phase, 840-unit development that is built with innovation for sustainable performance and a thoughtful design that residents are proud to call home.

With energy performance a top priority, this building has a high-efficiency vertical well geothermal HVAC system. Geothermal heating and cooling are considered the world's greenest and most energy-efficient heating method. At Frontier, geothermal eliminates the need for outdoor cooling equipment, significantly reduces carbon emissions and saves on electricity consumption in the building. The building envelope was also designed with optimal window glazing and insulation. The water and hydro are separately metered to each unit, which will typically result in a reduction of water consumption by 25% over units where the water is not accounted for.

Frontier opened in June 2019 and is now fully leased. We expect to save over 100 tons of carbon emissions annually, over 600,000 gallons of fresh water and over 310,000 kWh of electricity.



# SOCIAL

## Our Culture

Killam has a strong, vibrant culture supported by our five Core Values. We actively embrace these values each day in the way we do business.

At Killam, we believe that communication and connection are essential in fostering a strong culture. We ensure our executives and senior managers connect with every member of the Killam team through a variety of staff events, social occasions and training opportunities. In 2019, every region received multiple visits from head office staff and shared several connections with our senior team. Taking this a step further, in 2019 we celebrated our first "Killam Day" where simultaneous events took place at seven different locations across the country, each event attended by a senior manager from our corporate team and a local management representative. Making use of technology, our senior executive team hosted a live broadcast from Halifax, where they responded live to video questions about the organization posed by employees across the country. This event allowed for candid responses to employees' important questions and introduced our entire team to our management philosophies, and in many cases to each other, all while participating in an event in their home community.





### Killam's Plant a Tree Day

Killam employees and residents took part in tree planting events in Halifax and St. John's on National Tree Day in September 2019. The events included guest speakers who discussed the benefits of trees in our cities and the importance of urban wilderness areas. As we continue our urban landscape initiatives and plant more trees, we are contributing to the United Nations Sustainable Development Goal #15: *Life of Land*, which seeks to "Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss."

## Our Employees

### Engagement, Training & Development

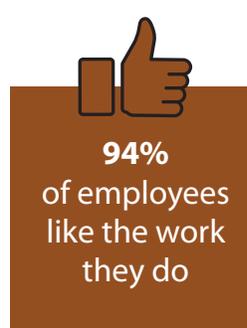
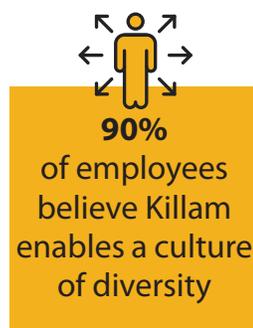
Killam's success is attributable to the hard work and dedication of our people. Our more than 700 employees exemplify Killam's Core Values and are the key to resident satisfaction.

Killam supports its employees at work and in their communities in many ways:

- Killam invests in employee education, leadership development and coaching programs and provides financial assistance for learning.
- Killam's employee unit purchase plan rewards employees with a 50% investment match after two years of service.
- Scholarships are available to children and grandchildren of Killam employees who pursue post-secondary education.
- Quarterly newsletters, team summits and senior management property visits foster an engaged workforce.
- Killam's Employee and Family Assistance Program provides counseling and support for employees and their family members experiencing depression, anxiety, stress, grief and other common issues.

Killam's annual engagement survey is completed by an independent organization and has provided insight into employee satisfaction and engagement levels for more than 10 years. In 2019, we were pleased to see strong results again. The comprehensive data provided is invaluable in making improvements to continuously enhance employee engagement.

### Employee Survey Results\*



\* 2019 Narrative Research, Independent Employee Survey

## Performance Management & Compensation

Killam is committed to delivering competitive compensation for its employees, along with considerable benefits, training and education opportunities to foster career advancement. The majority of Killam employees are measured quarterly on targets that are directly linked to our corporate goals for the year, ensuring that compensation and results are clearly linked. This practice increases both Killam's ability to meet our strategic targets and the commitment of our employees to our corporate success.

Quarterly scorecard reports for property managers and site employees are part of our regular performance management feedback program. The program includes annual, quarterly and probationary review programs, all offered through our user-friendly interactive employee portal.

Performance management includes career development and long-term goal discussions. In 2019, we continued our participation in a 360° review process, where leaders received one-on-one executive coaching. Our performance and compensation plans are reviewed annually, ensuring they align with market influences and internal requirements.

Killam's success in providing career advancement opportunities is measured through our internal promotion rates, recorded and reported internally on an annual basis. In 2020, Killam saw more than twenty permanent employees progress into senior professional or managerial roles.

## Awards and Recognition

We are proud to have been recognized by several external groups through the receipt of workplace awards. In 2019, Killam received several honours (featured to the right), based on a combination of survey results, cultural assessments and further employee feedback.

## Employee Benefits

FLEXIBLE BENEFITS PLANS

EMPLOYEE & FAMILY ASSISTANCE PROGRAM

PAID VOLUNTEER TIME

PAID TIME OFF (VACATION & PERSONAL)

PAID SICK LEAVE

ANNUAL INCENTIVE PLAN

EMPLOYEE UNIT PURCHASE PLAN

PROFESSIONAL ASSOCIATION REIMBURSEMENT

REFERRAL BONUSES

SHORT-TERM AND LONG-TERM DISABILITY COVERAGE

SUMMER HOURS

SCHOLARSHIPS

TUITION REIMBURSEMENT

DISCOUNT ON KILLAM APARTMENT RENTS

KILLAM PERKS (DISCOUNTS AT PARTNERS)

PARENTAL LEAVE PAY



## Annual Resident Survey<sup>(1)</sup>



## Our Residents

Killam provides outstanding customer service and fosters a sense of community at its properties. We survey residents annually to measure our success in meeting expectations and to identify areas for improvement. In 2019, we received a satisfaction rating of 88%<sup>(2)</sup> compared to the national average of 75%<sup>(3)</sup>.

Providing exceptional customer service to our prospective tenants and residents is key to ensuring Killam is their sustainable choice of residence, today and tomorrow. In 2019, we advanced our leasing experience to include more online capabilities and shortened our response time to maintenance service requests.

Creating a sense of community is a priority at Killam. Below are examples of programs, events and amenities that contribute to resident engagement:

- Holiday gatherings, community barbecues, meet and greets, pizza parties and movie nights.
- Investment in community gardens, playgrounds, fitness rooms, recreational facilities, as well as waterfront and pool upgrades at seasonal resorts.
- Killam's online resident portal, along with a mobile app version, and corporate website, including the online live chat option, has expanded communication options for existing and prospective residents.

(1) Results from 2019 Narrative Research Resident Survey

(2) Results from 2018 CRA Independent Resident Survey

(3) 2018 Avison Young National Multi-Residential Tenant Survey

## Health, Well-Being and Safety

The health and safety of our residents is of the utmost importance to Killam. All our on-site staff have mandatory fire and life safety training. Formal fire plans and monthly inspections at every building to identify and address safety concerns are a part of our routine at Killam. In 2019, Killam rolled out a cloud-based risk management software solution as a part of our increased risk management program. This solution allows mobile reporting and increases data analytics associated with risk related incidents.

We monitor indoor air quality, avoid harsh cleaning products, provide smoke-free common areas and use low- to no-odor paints. Additionally, we promote a healthier lifestyle for our residents with high-quality amenities, such as fitness rooms, lounges and social rooms.



## Our Communities

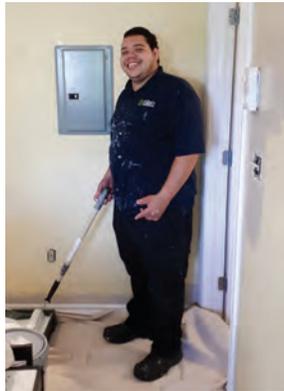
Killam employees are active community members. Killam grants paid leave each year for employees to volunteer with a charity of their choice. Many employees take advantage of this day to give back to organizations in their communities.

Killam has a Community Involvement Committee that monitors all aspects of the Trust's community involvement and charitable efforts on an ongoing basis.

Providing affordable units, along with donating units to hospitals, has always been important to Killam. Below are Killam's key community initiatives in 2019:

- Partnered with non-profit housing agencies such as Housing First, Nova Scotia Health Authority - Mental Health Division, Shelter Nova Scotia, YWCA and Phoenix. These relationships, along with partnerships with multiple provincial government housing boards, provide more than 750 subsidized units to previously under-housed individuals.
- Donated nine fully furnished units to hospitals across our portfolio, providing comfortable accommodation to families as they support loved ones through treatment.
- Provided financial assistance to organizations that offer shelter and support to individuals and families.
- Donated \$110,000 to the United Jewish Appeals (Holocaust Survivor Door-to-Door Program), which members of Killam's Board of Trustees personally pledge \$10,000 each annually to an organization of a Trustee's choice. Since beginning this annual donation program in 2010, Killam's Trustees have donated more than \$1 million to organizations across Canada.
- Provided assistance to residents who had fallen on hard times and needed financial support through Killam's Resident Relief Program. Qualifying residents can receive up to six months of reduced rent.

*Giving back is an important part of being a responsible corporate citizen. A core value of Killam is Do the Right Thing, and part of that is investing in our communities through various programs and initiatives.*



## Supply Chain Responsibility

Supply chain management is becoming increasingly important. Killam's major suppliers include skilled trades suppliers for maintenance and major renovations in our buildings, and material suppliers for building materials, cleaning supplies and first aid supplies. Killam fosters relationships with suppliers that commit to green environmental policies, as well as those that have a history of strong ethical and social practices. Killam has a mandatory vendor checklist that is signed by the vendor prior to commencing work. This checklist includes proof of both workers compensation and liability insurance, as well as disclosure of any health and safety infractions, fines and documentation of proper safety training. In 2020, Killam will review this checklist to include mandatory waste management procedures for all material vendors.



# Governance

## Board Structure

Killam believes that effective corporate governance is critical to our continued and long-term success and will help to maximize unitholder value. The Trustees strongly believe that their commitment to sound governance practices is in the best interest of the Trust and its unitholders and contributes to effective and efficient decision making.

The Board carries out its responsibilities with the support of several Board committees. The Governance and ESG Committee is responsible for the oversight of Killam's ESG mandate and initiatives. For more information on Killam's Board Committees, visit <https://killamreit.com/investor-relations/corporate-governance>.

## Independence

Killam's Board of Trustees is currently comprised of ten Trustees, six of whom are considered to be independent. Killam believes that separating the position of Chair of the Board and the position of the CEO is key in effectively providing independent Board oversight and in holding management accountable to the Board for the Trust's operations. Killam has an independent, non-executive Chair of the Board, and all Board committee members are independent. It is the Board's policy for non-management Trustees to hold regularly scheduled meetings without the attendance of management of the Trust (in-camera meetings). Time is specifically reserved for in-camera meetings at the beginning and/or end of the Board, Audit, Compensation and Governance & ESG Committee meetings.

*We hold ourselves to a high level of corporate social responsibility and our code of ethics is the foundation of how we do business.*

## Ethics

Killam is a good corporate citizen and maintains a high standard of integrity in conducting business. Killam's Code of Business Conduct and Ethics (the Code) establishes a framework of guidelines and principles to oversee and foster ethical behaviour in all business activities.

The principles in the Code are intended to:

- Establish ethical and fair practice in all business relationships, dealings and activities.
- Ensure compliance with all laws, regulations and Killam policies.
- Facilitate a safe working environment with respect for people and a commitment to diversity, equal opportunity and freedom from exposure to improper conduct and discrimination.

- Maintain professional integrity in all business dealings.
- Protect Killam's assets, ensuring only proper use for Killam's benefit.
- Safeguard the use of confidential information and maintain proper reporting procedures.
- Provide additional, practical insight into applying Killam's Core Values, specifically Do the Right Thing, to Killam's everyday operations.

## Diversity and Inclusion

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

Killam is an equal opportunity employer. All decisions regarding recruitment, hiring, promotion, compensation, employee development and all other terms and conditions of employment are made without regard to race, nationality or ethnic origin, colour, religion, age, sex, sexual orientation, gender orientation, marital status, civil status, physical or mental disability or any other protected ground, as set out in Killam's Code of Business Conduct and Ethics and applicable human rights legislation.

Killam's commitment to a diverse and inclusive workplace is apparent in the following initiatives, policies and practices:

- Killam has both employee and Board of Trustees diversity policies to promote inclusiveness, diversity and leadership opportunities.
- Two of ten Board positions and seven of twelve senior management positions are occupied by females. The Board has a target of at least three females by 2020.
- Killam's commitment to diversity is evident in our employee policies, handbooks, documents and employee portal. More importantly, respect and fair treatment are an essential part of our culture.
- Respectful workplace training is provided to employees on a regular basis.
- Any discriminatory practices or behaviours in the workplace are not tolerated and are addressed immediately.

## Gender Diversity | Female Composition



49% OF ALL EMPLOYEES



27% OF BOARD OF TRUSTEES



58% OF EXECUTIVE



53% OF MANAGERS & PROFESSIONALS

## Risk Management & Cyber Security

Killam's risk management program ensures we assess our largest risks as well as stay informed on emerging issues. The safety of Killam's residents and staff are a top priority. On a quarterly basis, Killam's Risk Management Committee, including senior representatives from all departments, addresses initiatives to improve the safety and security of our properties.

Initiatives implemented in 2019 included the rollout of an enhanced property safety inspection program, expanded resident and employee education, communication programs on risk mitigation and the piloting of a firestopping product. During 2019, Killam also rolled out a cloud-based risk management software solution to expand mobile reporting and increased data analytics associated with risk-related incidents. In addition, weekly and monthly property inspections by Killam's property management team identify and address risk mitigation.

Cyber security is a risk facing all organizations and one Killam takes seriously. The protection of Killam's data is the foundation of our cyber security program, and ensures resident and all proprietary data remain safe and secure. We work to reduce our cyber threat exposure, and have continued to enhance our cyber capabilities in the past year by migrating all data to cloud-based solutions with high-quality partners.

Educating our employees in cybersecurity is of the utmost importance, and we have deployed software that simulates phishing emails. Mandatory training is required if employees fail the random simulations. At Killam, we have email firewalls as front-line defence for email security, multi-factor authentication for all employees to access all corporate emails and data, and cloud to cloud back-up and recovery systems. We continue to develop our cyber defence through continued investment in cyber technologies and driving the education and awareness of our residents and employees.

## Stakeholder Engagement

We are committed to engaging with all our stakeholders on ESG issues. In developing Killam's materiality matrix, we assessed and identified the most significant stakeholder groups. Killam engages with its stakeholders in the follow ways:

**Residents** - We annually survey our residents and use the feedback to action and focus on issues of importance.

**Employees** - We annually survey our employees for feedback on a variety of topics including compensations and benefits, career opportunities and advancement, diversity and inclusion, as well as safety and comfort in their workplace.

**Investors** - We regularly meet with investors at conferences, private meetings and on property tours to discuss a variety of topics including operations, strategy, corporate governance and sustainability.

**Communities** - We are active participants in the communities in which we operate and regularly engage in dialogue with local groups on community activities, as well as receive feedback on our development projects.

In addition to effective stakeholder engagement, we respond to investor and ESG-related emails and inquiries on an ongoing basis. Any inquiries or comments can be directed through our VP, Investor Relations & Sustainability: Nancy Alexander, [nalexander@killamreit.com](mailto:nalexander@killamreit.com).

## About this Report

Killam's ESG report covers sustainability and ESG activities for the 2019 fiscal year. Both 2018 and 2019 greenhouse gas emissions data has been independently reviewed for scope 1 and 2 emissions.

This report has been prepared in accordance with Global Reporting Initiative Standards: Core Option. For reference, a GRI content index is attached. This report has not been assured.

For relevant supplemental financial performance results, please refer to <https://killamreit.com/investor-relations/financial-reports> or <https://sedar.com>. For additional governance-related documents, please refer to <https://killamreit.com/investor-relations/corporate-governance>.

## Global Reporting Initiative Content Index

This GRI Content Index references the GFI Standards, and where applicable, the real estate section disclosures.

## GRI Reporting Disclosure

### Organizational Profile

<b>GRI Indicator</b>	<b>Description</b>	<b>Explanation/Section</b>
102-1	The name of the organization	Killam Apartment REIT ("Killam")
102-2	Activities, brands, products and services	Killam is a growth-oriented Canadian real estate investment trust owning, operating and developing apartments and manufactured home communities. Killam owns a \$3.3 billion real estate portfolio located in Atlantic Canada, Ontario, Alberta and British Columbia.
102-3	Location of headquarters	Killam's corporate head office is located in Halifax, Nova Scotia, with property management offices in all our major regions.
102-4	Location of operations	Killam's operations are within Canada, for details on Killam's specific operating regions see About Killam p. 2
102-5	Ownership and legal form	Killam is an open-ended real estate investment trust ("REIT") formed under the laws of the Province of Ontario pursuant to an amended and restated declaration of trust dated November 27, 2015 (the "Declaration of Trust"). The Declaration of Trust is available on SEDAR at <a href="http://www.sedar.com">www.sedar.com</a> .
102-6	Markets served	2019 Annual Report - About Killam, p. 2
102-7	Scale of the organization	As of December 31, 2019, Killam had approximately \$3.3 billion in portfolio assets and approximately 660 employees across seven provinces within Canada. 2019 Annual Report - About Killam, p. 2 and Financial and Operating Highlights, p. 4 Our Employees, p. 28

102-8 Information of employees and other workers

<u>Employees by Gender</u>		<u>Number</u>	<u>Percentage</u>		
Female		317	47.9%		
Male		345	52.1%		
Total		662	100.0%		

<u>Employees by Employment Type</u>		<u>Full Time</u>	<u>Part Time</u>	<u>Total</u>	<u>Percentage of Performance Reviews Completed</u>	
Female		244	73	317	Female Employees	95%
Male		251	94	345	Male Employees	96%
Total		495	167	662	Senior Management	100%
					Resident Managers	97%
					Maintenance Staff	100%
					Other	91%
					Overall Employees	95%

<u>Employees by Employment Contract</u>		<u>Permanent</u>	<u>Temporary</u>	<u>Total</u>
Female		306	11	317
Male		317	28	345
Total		623	39	662

102-9	Supply chain	Supply Chain Responsibility, p. 31
102-10	Significant changes to the organization and its supply chain	Killam did not undergo any significant changes to the organization or its supply chain in 2019.
102-11	Precautionary principle or approach	We are not currently reporting on this GRI indicator. Killam has extensive risk management practices in place regarding the safety of its tenants, however Killam recognizes an opportunity to apply the precautionary approach to assess Killam's impact on the environment and implement environment risk management practices into operational planning.
102-12	External initiatives	United Nations Sustainable Development Goals ("SDGs") p. 21 Global Real Estate Sustainability Benchmark ("GRESB") Killam completed its initial GRESB assessment during 2019 and plans to continue to report sustainability practices through GRESB submissions annually.
102-13	Membership of associations	Real Property Association of Canada ("REALPac") Investment Property Owners Association of Nova Scotia ("IPOANS") Canadian Federation Apartment Association ("CFAA") Federation of Rental Housing Providers in Ontario ("FRPO") Greater Toronto Apartment Association ("GTAA")

**Strategy**

102-14	Statement from senior decision-maker	Letter from the President & CEO, p. 17
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**Ethics and integrity**

102-16	Values, principals, standards, and norms of behaviour	Our Culture, p. 27 Ethics, p. 32
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**Governance**

102-18	Governance structure	Governance, p. 32 <a href="https://killamreit.com/investor-relations/corporate-governance">https://killamreit.com/investor-relations/corporate-governance</a>
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## Stakeholder engagement

102-40	List of stakeholder groups	Stakeholder Engagement, p. 33
102-41	Collective bargaining agreements	non-unionized; 0%
102-42	Identifying and selecting stakeholders	Stakeholder Engagement, p. 33
102-43	Approach to stakeholder engagement	Stakeholder Engagement, p. 33
102-44	Key topics and concerns raised	Nothing material to note.

## Reporting practice

102-45	Entities included in the consolidated financial statements	Killam Apartment REIT and its principal subsidiaries as listed in Killam's Annual Information Form on sedar.com
102-46	Defining report content and topic boundaries	Materiality Assessment, p. 19
102-47	List of material topics	Materiality Assessment, p. 19
102-48	Restatements of information	None
102-49	Changes in reporting	None
102-50	Reporting period	All information in the report covers the year ended December 31, 2019, unless otherwise stated.
102-51	Date of most recent report	This is the first report prepared in accordance with GRI Standards. Killam's 2018 ESG Report provides comparable information to 2019, but was not prepared in accordance with GRI Standards.
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Nancy Alexander, Vice President of Investor Relations & Sustainability; nalexander@killamreit.com
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core Option
102-55	GRI content index	GRI Context Index, p. 34
102-56	External assurance	None

## Economic Performance

201	Management approach disclosure	2019 Annual Report, Management Discussion and Analysis: Key Performance Indicators p. 42 and Summary of 2019 Results and Operations, p. 43
201-1	Direct economic value generated and distributed	2019 Annual Report, Management Discussion and Analysis: Financial and Operational Highlights, p. 43 and Distributions to Unitholders, p. 69

## Energy

302	Management approach disclosure	Investing in Energy Efficiencies, p. 23
302-3	Energy Intensity	Emissions Matter, p. 22

## Water and effluents

303	Management approach disclosure	Water Conservation, p. 23
303-5	Water Consumption	Water Conservation, p. 23

## Emissions

305	Management approach disclosure	Emissions Matter, p. 22
305-1	Direct (Scope 1) GHG Emissions	Emissions Matter, p. 22
305-2	Energy indirect (Scope 2) GHG Emissions	Emissions Matter, p. 22
305-4	GHG emissions intensity	See Energy Intensity (302-3) disclosure above and Emissions Matter, p. 22

## Occupational Health & Safety

403	Management approach disclosure	Health, Well-Being and Safety, p. 30
403-1	Occupational health and safety management system	Health, Well-Being and Safety, p. 30
403-5	Worker training on occupational health and safety	Health, Well-Being and Safety, p. 30

## Training and Education

404	Management approach disclosure	Engagement, Training & Development, p. 28														
404-3	Percentage of employees receiving regular performance and career development reviews	<p><b><u>Percentage of Performance Reviews Completed</u></b></p> <table border="1"> <tr> <td>Female Employees</td> <td>95%</td> </tr> <tr> <td>Male Employees</td> <td>96%</td> </tr> <tr> <td>Senior Management</td> <td>100%</td> </tr> <tr> <td>Resident Managers</td> <td>97%</td> </tr> <tr> <td>Maintenance Staff</td> <td>100%</td> </tr> <tr> <td>Other</td> <td>91%</td> </tr> <tr> <td><b>Overall Employees</b></td> <td><b>95%</b></td> </tr> </table>	Female Employees	95%	Male Employees	96%	Senior Management	100%	Resident Managers	97%	Maintenance Staff	100%	Other	91%	<b>Overall Employees</b>	<b>95%</b>
Female Employees	95%															
Male Employees	96%															
Senior Management	100%															
Resident Managers	97%															
Maintenance Staff	100%															
Other	91%															
<b>Overall Employees</b>	<b>95%</b>															

## Diversity and Equal Opportunity

405	Management approach disclosure	Diversity and Inclusion, p. 32															
405-1	Diversity of governance bodies and employees	<table border="1"> <tr> <td><b><u>Board of Trustees</u></b></td> <td><b>Overall</b></td> <td><b>Under 30</b></td> <td><b>30-50</b></td> <td><b>Over 50</b></td> </tr> <tr> <td>Female</td> <td>20%</td> <td>0%</td> <td>50%</td> <td>50%</td> </tr> <tr> <td>Male</td> <td>80%</td> <td>0%</td> <td>0%</td> <td>100%</td> </tr> </table>	<b><u>Board of Trustees</u></b>	<b>Overall</b>	<b>Under 30</b>	<b>30-50</b>	<b>Over 50</b>	Female	20%	0%	50%	50%	Male	80%	0%	0%	100%
<b><u>Board of Trustees</u></b>	<b>Overall</b>	<b>Under 30</b>	<b>30-50</b>	<b>Over 50</b>													
Female	20%	0%	50%	50%													
Male	80%	0%	0%	100%													

<b><u>Age by Category</u></b>	<b>Senior Management</b>	<b>Resident Manager</b>	<b>Maintenance</b>	<b>Overall Employees</b>
Under 30	0%	6%	9%	10%
30-50	45%	33%	38%	38%
Over 50	55%	61%	53%	52%

<b><u>Gender by Category</u></b>	<b>Senior Management</b>	<b>Resident Manager</b>	<b>Maintenance</b>	<b>Overall Employees</b>
Female	55%	48%	3%	49%
Male	45%	52%	97%	51%

## Customer Privacy

418	Management approach disclosure	Risk Management & Cyber Security, p. 33
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Killam did not identify or receive any substantiated complaints in 2019.

# 2019 Management's Discussion & Analysis

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

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# 2019 Management's Discussion & Analysis

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

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## PART I

### Business Overview

Killam Apartment REIT ("Killam", the "Trust", or the "REIT"), based in Halifax, Nova Scotia ("NS"), is one of Canada's largest residential landlords, owning, operating, managing and developing a \$3.3 billion portfolio of apartments, manufactured home communities ("MHCs") and commercial properties, across seven provinces. Killam was founded in 2000 to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam entered the Ontario ("ON") apartment market in 2010, the Alberta ("AB") apartment market in 2014, and the British Columbia ("BC") apartment market in 2020. Killam broke ground on its first development in 2010 and has completed eleven projects to date, with a further four projects currently under construction.

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

- 1) Increase earnings from the existing portfolio;
- 2) Expand the portfolio and diversify geographically through accretive acquisitions, targeting newer properties; and
- 3) Develop high-quality properties in its core markets.

The apartment business is Killam's largest segment and accounted for 88.4% of Killam's net operating income ("NOI") for the year ended December 31, 2019. As at December 31, 2019, Killam's apartment portfolio consisted of 16,325 units, including 968 units jointly owned with institutional partners. Killam's 199 apartment properties are located in Atlantic Canada's six largest urban centres (Halifax, Moncton, Saint John, Fredericton, Charlottetown and St. John's), Ontario (Ottawa, London, Toronto and Kitchener-Waterloo-Cambridge), Alberta (Edmonton and Calgary), and British Columbia (Greater Victoria). Killam is Atlantic Canada's largest residential landlord, owning a 13% share of multi-family rental units in its core markets. Killam plans to continue increasing its presence outside Atlantic Canada through acquisitions and developments, however, will continue to invest strategically in Atlantic Canada to maintain its market presence.

In addition, Killam owns 5,786 sites in 38 MHCs, also known as land-lease communities or trailer parks, in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting these communities and leases sites to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 6.9% of Killam's NOI for the year ended December 31, 2019. Killam also owns 771,715 square feet of commercial space that accounted for 4.7% of Killam's NOI for the year ended December 31, 2019.

### Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. This MD&A should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2019 and 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with Killam's 2018 Annual Information Form, are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The discussions in this MD&A are based on information available as at February 12, 2020. This MD&A has been reviewed and approved by Management and the REIT's Board of Trustees.

### Declaration of Trust

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

#### Investment Guidelines

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

#### Operating Policies

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

As at December 31, 2019, Killam was in compliance with all investment guidelines and operating policies.

# 2019 Management's Discussion & Analysis

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

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## Forward-looking Statements

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

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

## Non-IFRS Financial Measures

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

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to Exchangeable Units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, interest expense related to lease liabilities, insurance proceeds and non-controlling interest. FFO are calculated in accordance with the REALpac definition, except for the adjustment of insurance proceeds as REALpac does not address this adjustment. A reconciliation between net income and FFO is included on page 29.
- Adjusted funds from operations ("AFFO"), and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less an allowance for maintenance capital expenditures ("capex") (a three-year rolling historical average capital spend to maintain and sustain Killam's properties), commercial leasing costs and straight-line commercial rents. AFFO are calculated in accordance with the REALpac definition. Management considers AFFO an earnings metric. A reconciliation from FFO to AFFO is included on page 31.
- Adjusted cash flow from operations ("ACFO") is calculated by Killam as cash flow provided by operating activities with adjustments for changes in working capital that are not indicative of sustainable cash available for distribution, maintenance capital expenditures, commercial leasing costs, amortization of deferred financing costs and non-controlling interest. Management considers ACFO a measure of sustainable cash flow. A reconciliation from cash provided by operating activities to ACFO is included on page 32. ACFO is calculated in accordance with the REALpac definition.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") is calculated by Killam as income before fair value adjustments, gains (losses) on disposition, income taxes, interest, depreciation and amortization.
- Interest coverage is calculated by dividing EBITDA by interest expense, less interest expense related to exchangeable units.
- Debt service coverage is calculated by dividing EBITDA by interest expense, less interest expense related to exchangeable units, and principal mortgage repayments.
- Debt to normalized EBITDA is calculated by dividing interest-bearing debt (net of cash) by EBITDA that has been adjusted for a full year of stabilized earnings from recently completed acquisitions and developments.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties that Killam has owned for equivalent periods in 2019 and 2018. Same property results represent 80.2% of the fair value of Killam's investment property portfolio as at December 31, 2019. Excluded from same property results in 2019 are acquisitions, dispositions and developments completed in 2018 and 2019, non-stabilized commercial properties linked to development projects, and other adjustments to normalize for revenue or expense items that relate to prior periods or are not operational.

# 2019 Management's Discussion & Analysis

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

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## PART II

### Key Performance Indicators

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

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

# 2019 Management's Discussion & Analysis

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

## Financial and Operational Highlights

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

### For the years ended December 31,

Operating Performance	2019	2018	Change <sup>(2)</sup>
Property revenue	\$241,749	\$215,959	11.9%
Net operating income	\$152,336	\$135,712	12.2%
Net income	\$283,525	\$175,171	61.9%
FFO <sup>(1)</sup>	\$93,884	\$81,808	14.8%
FFO per unit - diluted <sup>(1)</sup>	\$0.98	\$0.94	4.3%
AFFO <sup>(1)</sup>	\$76,768	\$66,275	15.8%
AFFO per unit - diluted <sup>(1)</sup>	\$0.80	\$0.76	5.3%
Weighted average number of units outstanding - diluted (000s)	95,914	87,185	10.0%
Distributions paid per unit <sup>(3)</sup>	\$0.66	\$0.64	3.1%
AFFO payout ratio - diluted <sup>(1)</sup>	82%	84%	(200) bps
<b>Portfolio Performance</b>			
Same property NOI <sup>(1)</sup>	\$126,485	\$121,482	4.1%
Same property NOI margin	62.9%	62.5%	40 bps
Same property apartment occupancy	97.3%	96.9%	40 bps
Same property apartment weighted average rental increase <sup>(4)</sup>	3.6%	2.7%	90 bps
<b>As at December 31,</b>			
<b>Leverage Ratios and Metrics</b>			
Debt to total assets	43.4%	49.8%	(640) bps
Weighted average mortgage interest rate	2.90%	2.95%	(5) bps
Weighted average years to debt maturity	4.5	4.4	0.1 years
Debt to normalized EBITDA <sup>(1)</sup>	10.15x	10.62x	(4.4)%
Debt service coverage <sup>(1)</sup>	1.57x	1.58x	(0.6)%
Interest coverage <sup>(1)</sup>	3.20x	3.22x	(0.6)%

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

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

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

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

## Summary of 2019 Results and Operations

### Achieved Net Income of \$284 Million

Killam achieved net income of \$284 million in 2019 compared to \$175 million in 2018. The increase in net income is primarily attributable to fair value gains on investment properties, growth through acquisitions and increased earnings from the existing portfolio, offset by increased financing costs and deferred tax expense.

### FFO per Unit Growth of 4.3% and AFFO per Unit Growth of 5.3%

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

# 2019 Management's Discussion & Analysis

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

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## **Portfolio Growth from Acquisitions and Continued Geographic Diversification**

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

## **Same Property NOI Growth of 4.1% and Improved Operating Margin**

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

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

## **Rental Rate Growth of 3.6% Enhanced Top Line Performance**

Same property revenue increased 3.5%, compared to 2018, as a result of a 3.6% increase in the average rental rate for the apartment portfolio, a 40 bps increase in average apartment occupancy, a decrease in rental incentives and 2.6% top-line growth within the MHC portfolio. With continued high occupancy levels, increasing rental rates is a key focus for revenue optimization.

Same property rental rate growth has accelerated over the last eight quarters, from 1.8% in Q4-2017 to 3.6% in Q4-2019. Rental rate increases on unit turns and lease renewals averaged 5.8% and 2.1% in 2019, up from 4.7% and 1.7% a year earlier. Halifax and Ontario led the apartment performance, achieving year-over-year same property apartment revenue increases of 4.7% and 4.1%.

## **Successful Repositioning Program Continues to Generate Above-average Returns**

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

## **Cap-rate Compression and Strong NOI Growth Supported Fair Value Gains**

Killam recorded \$244.1 million in fair value gains related to its investment properties for the year ended December 31, 2019, as a result of cap-rate compression in Halifax, Ontario and on the MHC portfolio and robust NOI growth driven by increasing rental rates and strong apartment fundamentals across Killam's core markets. Killam's weighted average cap-rates for its apartment and MHC portfolios at December 31, 2019, were 4.76% and 5.65%, a decrease of 39 bps and 111 bps compared to December 31, 2018.

## **Substantial Development Activity Underway**

The Alexander and Saginaw Park developments, completed in 2018, and the Frontier development, completed in June 2019, contributed positively to FFO per unit growth in 2019, together adding \$3.1 million to FFO.

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

## **Investments in Technology and Data Analytics**

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

## **Environmental, Social and Governance (ESG) Focused Initiatives**

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

## 2019 Management's Discussion & Analysis

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

### Strategic Targets

<b>Growth in Same Property NOI</b>	
2019 Target	Same property NOI growth of 3% to 5%.
2019 Performance	Killam achieved same property NOI growth of 4.1% in 2019.
2020 Target	Same property NOI growth of 3% to 5%.
Longer-term Target	Same Property NOI growth averaging over 3%.
<b>Expanded Portfolio</b>	
2019 Target	Grow the portfolio to over \$3.0 billion by the end of 2019, with a minimum acquisition target of \$100 million.
2019 Performance	Killam exceeded both targets, increasing the portfolio to \$3.3 billion and completing \$191.1 million in acquisitions.
2020 Target	Complete a minimum of \$175.0 million in acquisitions.
Longer-term Target	Grow the portfolio to over \$4.0 billion by the end of 2022.
<b>Geographic Diversification</b>	
2019 Target	Earn at least 30% of 2019 NOI outside Atlantic Canada.
2019 Performance	Killam met its target, with 30% of 2019 NOI generated outside Atlantic Canada.
2020 Target	Earn at least 32% of 2020 NOI outside Atlantic Canada.
Longer-term Target	Earn over 37% of NOI generated outside Atlantic Canada by 2022.
<b>Development of High-Quality Properties</b>	
2019 Target	To complete Phase I (Frontier) of the Ottawa development, break ground on Silver Spear II, plus one additional development project.
2019 Performance	Killam met its target, with Frontier completed in June 2019 and the commencement of the Kay (Silver Spear II) development during Q3-2019. Latitude (Phase II of the Gloucester City Centre development) also broke ground in Q2-2019.
2020 Target	To complete the Shorefront development, and break ground on two additional development projects.
Longer-term Target	To complete a minimum of \$200 million in developments between 2020 and 2022.
<b>Strengthened Balance Sheet</b>	
2019 Target	Manage debt as a percentage of total assets ratio below 49%.
2019 Performance	Debt as a percentage of total assets was 43.4% as at December 31, 2019.
2020 Target	Maintain debt as a percentage of assets ratio below 47%.
Longer-term Target	Reduce debt as a percentage of assets below 45% by the end of 2021.

# 2019 Management's Discussion & Analysis

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

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## Outlook

### **Strong Operating Fundamentals and Population Growth Expected to Drive Above-average Rental Growth**

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

These strong demand drivers are resulting in tight rental markets across Canada, including Atlantic Canada. Per Canada Mortgage and Housing Corporation's ("CMHC") Fall 2019 Housing Market Outlook report, Halifax vacancy hit an all-time low of 1.0%, 60 bps below the vacancy rate for the same period in 2018, and CMHC forecasts vacancy will remain below 2.0% into 2020. This tight rental market is expected to support above-average rental rate growth.

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

### **Expanded Suite Repositioning Program**

Management is committed to continuing to invest in its repositioning program, investing a total of \$6.8 million in repositioning 304 suites in 2019 to meet market demand and enhance revenue growth and the NAV of its portfolio. Suite repositionings represent unit upgrades above \$10,000. Killam targets an ROI of at least 10% and monthly rental rate increases of 10%–30% upon completion of the renovation. Given the success to date, in 2020 Killam expects to expand the program further, targeting the completion of 500 suites. A review of Killam's portfolio has identified a minimum of 3,000 units having repositioning potential. Killam plans to expand this program on an annual basis.

### **Investing in Energy Efficiency Opportunities to Reduce Consumption and Increase Margins**

Investments in energy and water-saving initiatives, and operational efficiencies, are expected to continue to reduce Killam's resource consumption and improve operating margins. Killam is in its fourth year of a five-year, \$25.0 million, program to reduce the carbon footprint of its buildings through the installation of low-flow water fixtures, boiler, ventilation and cooling system upgrades, and the retrofit of temperature control and lighting systems. Management is forecasting investments of \$5.0 million in both 2020 and 2021 on projects with an average payback of approximately six years. These projects should improve same property NOI by lowering consumption, thereby reducing Killam's exposure to fluctuating energy costs.

### **Enhancing Efficiencies through Technology**

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

### **On Track with Geographic Diversification Targets**

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

### **Driving FFO and NAV Growth with Developments**

Development remains an important component of Killam's growth strategy. Frontier was completed in June 2019 and is currently 97% leased. Killam recorded \$9.5 million in fair value gains on the development. Killam currently has four development projects underway, including two in Charlottetown and projects in both Ottawa and Mississauga. Killam also has a 10% interest in a development in Calgary.

Additionally, Killam owns land supporting a development pipeline of approximately 2,650 units, representing a potential additional investment of \$850 million (net of land costs). Killam is moving forward with development planning for its recently acquired development lands in Waterloo and Kitchener and targets beginning construction in 2020 and 2021. Killam expects to complete over \$200.0 million of development projects over the next three years. Developments reinforce Killam's position as the owner of one of the newest and highest-quality apartment portfolios in Canada. See further discussion on land held for future development in the "Investment Properties" section of this MD&A.

# 2019 Management's Discussion & Analysis

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

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## **Focus on Improving Debt Metrics and Increasing Capital Flexibility**

Killam manages its balance sheet to maximize capital flexibility. Killam continues to improve its key debt metrics, reducing its debt to total asset ratio 640 bps from 49.8% at the end of 2018 to 43.4% at the end of 2019. Killam is also focused on increasing its pool of unencumbered assets by acquiring properties with no debt and repaying its highest interest rate debt. Where possible, Killam uses the opportunity to reduce its MHC mortgage debt that has higher interest rates, as MHCs do not qualify for CMHC insurance.

## **Repositioning of Brewery Market Expected to Drive FFO and NAV Growth Beyond 2019**

Killam continues to reposition its 150,000 square foot ("SF") commercial asset, the Brewery Market in Halifax, located adjacent Killam's 240-unit Alexander apartment property. Integrating these two properties is expected to both generate long-term growth in apartment rental rates and attract new commercial tenants. In early Q2-2019, planned tenant turnover at the Brewery Market provided Killam with an opportunity to redevelop the vacant space and attract a more diverse tenant base, at higher net rents, which complements the increased residential density in the area. Due to tenant turnover, earnings at the Brewery Market were \$0.5 million lower in 2019 compared to 2018; however, this is expected to be more than offset by long-term NAV growth. In 2020, the Brewery Market is forecasted to achieve a \$0.5 million increase in NOI over 2019, with further growth expected in 2021.

## **Stable Interest Rates Expected on Refinancings**

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

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

# 2019 Management's Discussion & Analysis

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

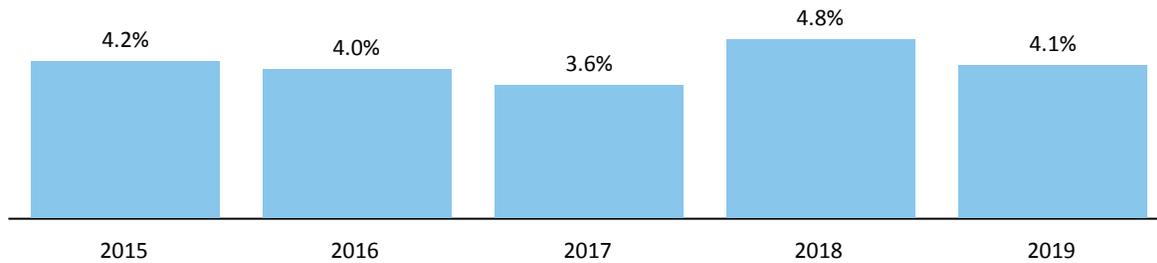
## PART III

### Business Strategy

#### Increase Earnings from the Existing Portfolio

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

#### Historic Same Property NOI Growth



#### Expand the Portfolio through Acquisitions

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

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

#### Annual Acquisitions (\$ millions)



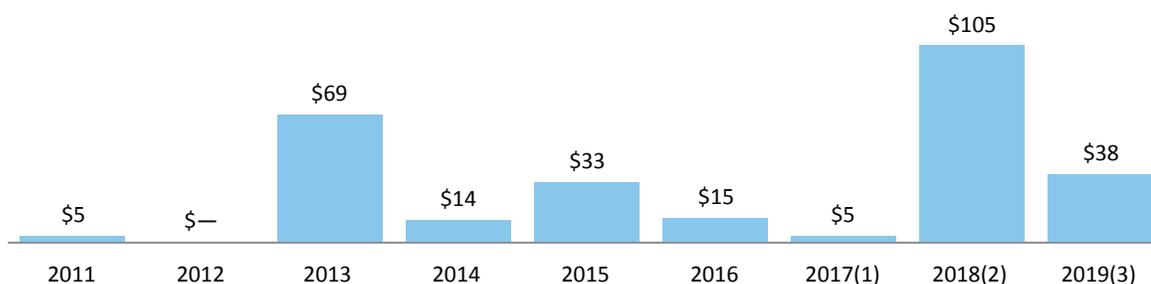
## 2019 Management's Discussion & Analysis

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

### Develop High-quality Properties in Core Markets

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

### Apartment Developments Complete (\$ millions)



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

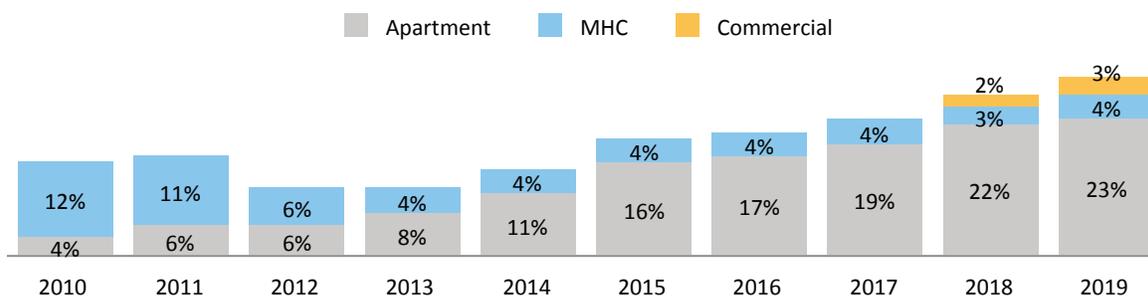
<sup>(2)</sup> 2018 includes Saginaw Park and The Alexander. Killam was the development manager for 100% of the \$85 million Alexander development and purchased the remaining 50% interest in December 2018.

<sup>(3)</sup> 2019 includes Killam's 50% interest in Frontier.

### Diversify Geographically through Accretive Acquisitions

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

### % of Killam's NOI Generated Outside Atlantic Canada



# 2019 Management's Discussion & Analysis

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

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## Committed to ESG

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

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

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

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

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

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

### Sustainability Policy

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

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

### 2019 ESG Highlights and Achievements

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

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

# 2019 Management's Discussion & Analysis

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

## Portfolio Summary

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

Apartment Portfolio				
	Units <sup>(1)</sup>	Number of Properties	NOI (\$) <sup>(2)</sup>	NOI <sup>(2)</sup> (% of Total)
<b>Nova Scotia</b>				
Halifax	5,753	63	\$53,545	35.1%
Sydney	139	2	\$1,408	0.9%
	5,892	65	\$54,953	36.0%
<b>New Brunswick</b>				
Moncton	1,804	34	\$10,836	7.1%
Fredericton	1,529	23	\$10,778	7.1%
Saint John	1,202	14	\$6,200	4.1%
Miramichi	96	1	\$638	0.4%
	4,631	72	\$28,452	18.7%
<b>Ontario</b>				
Ottawa	1,216	9	\$9,472	6.2%
London	523	5	\$5,378	3.5%
Cambridge-GTA	818	6	\$10,404	6.8%
	2,557	20	\$25,254	16.5%
<b>Newfoundland &amp; Labrador</b>				
St. John's	915	12	\$6,931	4.5%
Grand Falls	148	2	\$741	0.5%
	1,063	14	\$7,672	5.0%
<b>Prince Edward Island</b>				
Charlottetown	986	19	\$7,741	5.1%
Summerside	86	2	\$570	0.4%
	1,072	21	\$8,311	5.5%
<b>Alberta</b>				
Calgary	531	3	\$4,834	3.2%
Edmonton	579	4	\$5,262	3.5%
	1,110	7	\$10,096	6.7%
<b>Total Apartments</b>	<b>16,325</b>	<b>199</b>	<b>\$134,738</b>	<b>88.4%</b>
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI (\$) <sup>(2)</sup>	NOI <sup>(2)</sup> (% of Total)
<b>Nova Scotia</b>				
	2,749	17	\$4,662	3.1%
<b>Ontario</b>				
	2,284	17	\$5,330	3.5%
<b>New Brunswick <sup>(4)</sup></b>				
	529	2	\$122	0.1%
<b>Newfoundland &amp; Labrador</b>				
	224	2	\$350	0.2%
<b>Total MHCs</b>	<b>5,786</b>	<b>38</b>	<b>\$10,464</b>	<b>6.9%</b>
Commercial Portfolio <sup>(3)</sup>				
	Square Footage <sup>(1)</sup>	Number of Properties <sup>(1)</sup>	NOI (\$) <sup>(2)</sup>	NOI <sup>(2)</sup> (% of Total)
<b>Prince Edward Island</b>				
	187,500	1	\$1,084	0.7%
<b>Ontario</b>				
	297,000	1	\$4,578	3.0%
<b>Nova Scotia</b>				
	254,000	4	\$1,230	0.8%
<b>New Brunswick <sup>(4)</sup></b>				
	33,215	1	\$242	0.2%
<b>Total Commercial</b>	<b>771,715</b>	<b>7</b>	<b>\$7,134</b>	<b>4.7%</b>
<b>Total Portfolio</b>		<b>244</b>	<b>\$152,336</b>	<b>100.0%</b>

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

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

(3) Killam also has 151,100 square feet of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.

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

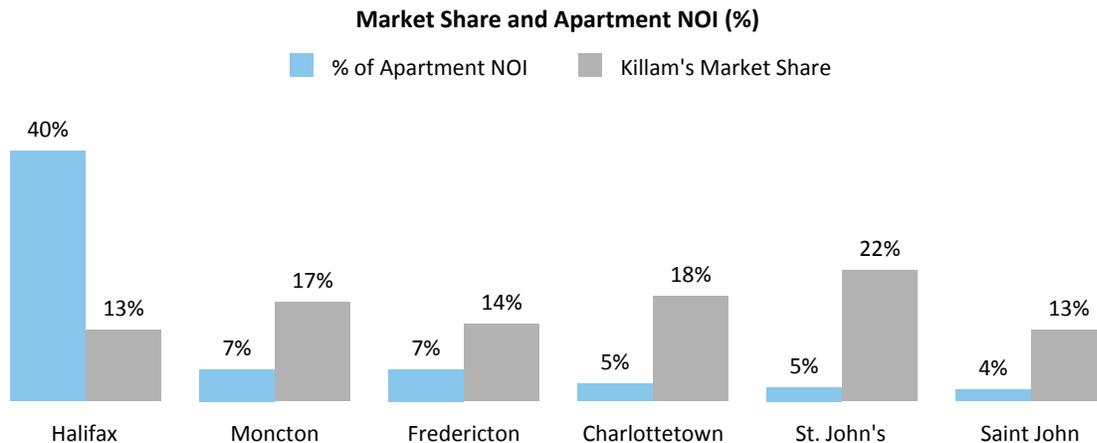
# 2019 Management's Discussion & Analysis

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

## Unique Portfolio Features

### Atlantic Canada's Market Leader

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



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

### Relatively Modest Exposure to Rent Control

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

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

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

### Focused on Customer Service

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

### Geographic Diversification

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

# 2019 Management's Discussion & Analysis

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

## Core Market Update

### Halifax

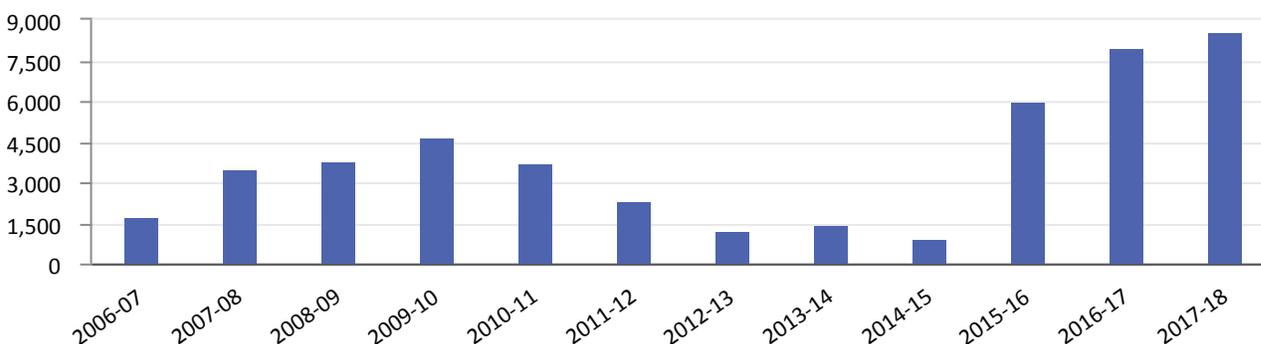
Thirty-five percent of Killam's NOI is generated by its Halifax apartment properties. Halifax is the largest city in Atlantic Canada and is home to 18% of Atlantic Canadians. The city's rental market totals 51,400 units, with an additional 4,000 rental units currently under construction. According to CMHC's Fall 2019 Rental Market Outlook, demand for apartments is expected to support new housing start activity. Halifax's diverse economy generates 55% of Nova Scotia's GDP and is home to 45% of the province's population. With six degree-granting universities and three large community college campuses, Halifax has approximately 41,000 students, including 6,700 international students. Halifax's employment base is diversified, with the largest sectors focused on public service, health care, education, and retail and wholesale trade. Halifax is home to the largest Canadian Forces Base by number of personnel, and the Department of National Defence is the city's largest single employer.

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

According to RBC's December 2019 Provincial Outlook, Nova Scotia is experiencing the fastest population growth since 1986, which has coincided with strong demand for labour. Over 300 companies are participating in ocean-sector business in Nova Scotia, with more than 80 innovators of new, high-tech products and services. The Ocean Frontier Institute provides funds for ocean research and advancement to faculty at Dalhousie University, creating new opportunities for Dalhousie researchers. There is tremendous opportunity to leverage science and technology in Canada's ocean sectors, furthering the knowledge-based ocean economy. Canada's Ocean Supercluster aims to build Canada's ocean economy into one of the country's most significant and sustainable economic segments, through federal government and private sector co-investment of more than \$300 million over the next four years. Technology is another expanding sector of growth for Halifax, with public funding recently announced for local tech incubators. The Halifax Index 2019 reported that more than 60 start-up companies have been founded in Halifax over the past five years, and Halifax ranked eighth among Canadian cities for both number and value of venture and private equity investment deals in 2018.

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

**Historical Population Growth, Halifax  
Annually from July 1 - June 30**



Source: Statistics Canada

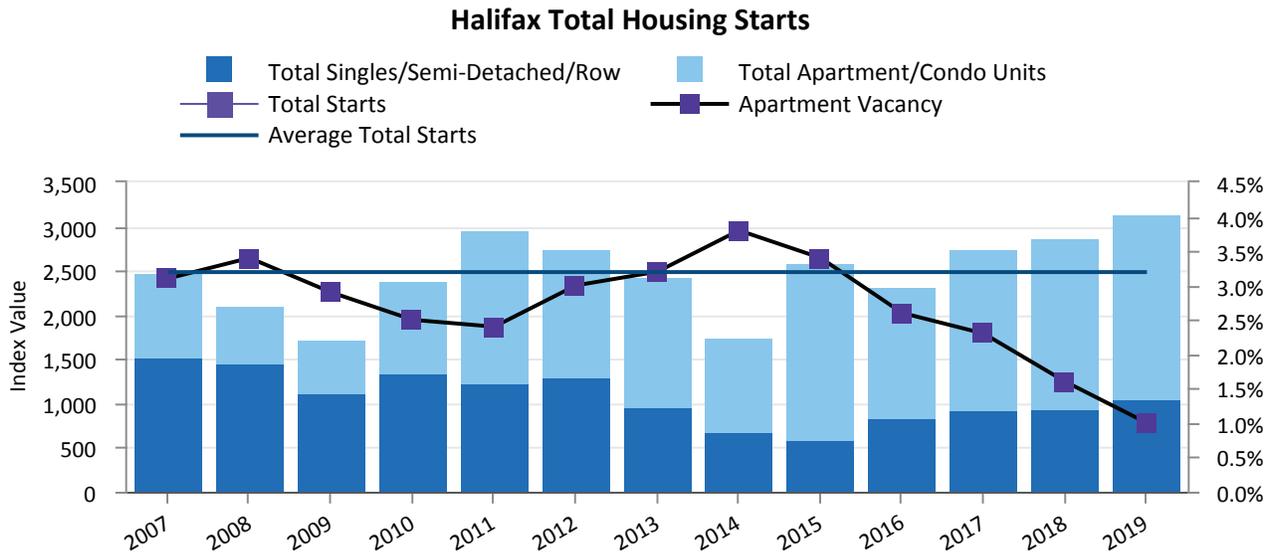
According to statistics released in early 2019, Halifax is now among the fastest growing cities in Canada. Halifax's population growth in each of the last three years was 1.6%, 1.9% and 2.0%, primarily driven by immigration and urbanization. Over this three-year period, Statistics Canada has reported that Halifax's overall population grew by over 22,000 people. CMHC reported net provincial migration in 2019 was 3,300, with the past four years seeing positive migration. Halifax has seen an increase in international immigration, representing 63% of Halifax's population growth in 2018. This immigration is reflected in local university enrollment; all three universities experienced an overall enrollment increase of 1.1% and the number of international students increased 4.6%.

According to CMHC's Rental Market Report, released in early 2020, Halifax currently has over 4,000 rental units under construction, which is the highest level seen at any point in time. CMHC predicts high net migration and demand from an aging population switching to the rental market will support on-going demand for rental units. Additionally, rising home prices are expected to negatively impact affordability for first-time home buyers. CMHC's Rental Market Report reported Halifax's vacancy hit an all time low at 1.0% in October 2019, compared to 1.6% in October 2018. With expected population growth and strong demand from both young and older renters, CMHC forecasts that the Halifax market will remain solid, with vacancy rates forecast for 2020 and 2021 of 1.3% and 2.0%, well below the historic average.

# 2019 Management's Discussion & Analysis

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

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



Source: CMHC

## New Brunswick

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

CMHC expects a favorable housing resale market to encourage previously hesitant sellers and increase the flow of seniors into the rental market. This, along with an increased volume of immigration being attracted through the Atlantic Immigration Pilot Program, is expected to enhance rental housing demand. Actual vacancy rates reported by CMHC for Fredericton, Moncton and Saint John were 1.4%, 2.2% and 3.3% in October 2019, down from 2.1%, 2.7% and 3.7%, respectively, in October 2018.

## St. John's, Newfoundland

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

## Prince Edward Island

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

## Ontario

Killam's Ontario apartment portfolio generated 17% of NOI in 2019. The Ontario rental market is strong, as the province continues to experience economic and population growth attributable to high levels of international immigration. A widening gap between the cost of home ownership and renting is increasing the demand for rental stock. RBC's December 2019 Provincial Outlook reported overall conditions in Ontario are favorable and the economy is growing at a more sustainable pace. Overall, Ontario vacancy per CMHC was 2.0% for October 2019, up slightly from 1.8% in October 2018.

# 2019 Management's Discussion & Analysis

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

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## Ottawa

According to CMHC's 2019 Housing Market Outlook, Ottawa's vacancy rates have continued to decline. Vacancy in October 2019 was 1.8%, compared to 1.6% in October 2018 and 1.7% in October 2017. Looking forward, CMHC forecasts vacancy will remain under 2.0% through 2020 and 2021. Rental demand has continued to be strong, supported by continued population growth, with an important driver being immigration. CMHC reported steady net migration levels, with Ottawa's population growing at an average annual rate of 2.4% over the last three years. The average rent for a two-bedroom unit rose by 8.0% year-over-year (to \$1,410 per unit), as the 1.8% Ontario rent increase guideline encouraged property owners to look for larger increases on unit turns.

## Kitchener-Waterloo-Cambridge

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

## London

The London primary rental market saw a decrease in overall vacancy, from 2.1% in 2018 to 1.8% in 2019, and CMHC's Housing Market Outlook expects vacancy to remain relatively stable over the next two years. Population growth has been increasing in London, with strong net migration levels and rising permanent resident admissions.

## Greater Toronto Area

According to CMHC's 2019 Outlook, home ownership costs in the Greater Toronto Area are keeping demand for rental units strong in both primary and secondary markets. CMHC reported a slight increase in vacancy from 1.1% in October 2018 to 1.5% in October 2019 and forecast this vacancy rate to decrease slightly over the next two years. Growth in rental rates and strong occupancy has led developers to begin building more rental units in the region; however, they are still significantly lower than condo starts.

## **Alberta**

Seven percent of Killam's NOI was earned in Alberta. Despite concern for the province's economy related to oil pricing and an impasse between federal and provincial governments about the new Trans Mountain Pipeline Project, there were positive trends in the multi-family markets in both Calgary and Edmonton. While RBC's December 2019 Provincial Outlook expected growth to be only 0.6% in 2019, growth is projected to be 1.7% in 2020 and 2.3% in 2021. RBC reports gradual lifting of mandated oil production cuts will set the stage for a significant increase in energy output and operation of the Canadian section of Enbridge's Line 3 pipeline should help fuel growth.

## Calgary

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

## Edmonton

In Edmonton, CMHC reported 4.9% vacancy in October 2019, versus 5.3% in October 2018, and an average monthly rental rate of \$1,257 for a two-bedroom apartment, up 0.8% from a year earlier. CMHC's 2019 Housing Market Outlook expects vacancy to continue decreasing gradually in 2020 to 3.4% and increase to 4.3% in 2021 as a result of increased rental supply. To date, Killam's assets in Edmonton have not experienced this level of recovery.

# 2019 Management's Discussion & Analysis

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

## PART IV

### 2019 Financial Overview

#### Consolidated Results

For the years ended December 31,

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

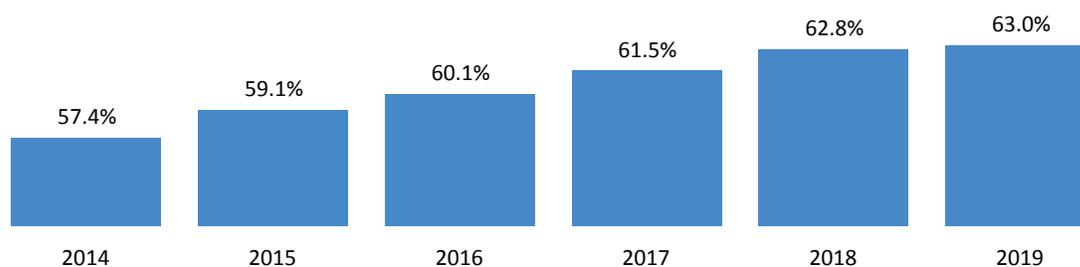
For the year ended December 31, 2019, Killam recognized strong total portfolio performance. Revenue grew 11.9%, offset by total operating expense increases of 11.4% due to inflationary pressures and the increased size of Killam's portfolio. In aggregate, NOI increased 12.2% for the year ended December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

Same property results included properties owned during comparable 2019 and 2018 periods. Same property results represent 80.2% of the fair value of Killam's investment property portfolio as at December 31, 2019. Non-same property results include acquisitions, dispositions and developments completed in 2018 and 2019, commercial assets acquired for future residential development, as well as adjustments to normalize for non-operational revenues or expenses.

Same property revenue grew by 3.5% for the year ended December 31, 2019, as compared to the same period of 2018. This growth is attributable to higher rental rates, improved occupancy and lower rental incentive offerings, as a result of strong market fundamentals and execution of Killam's rent optimization program. Total same property operating expenses increased 2.4% for the year ended December 31, 2019. Overall, same property NOI grew by 4.1% and Killam's operating margin improved by 40 bps.

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

#### Operating Margin %



## 2019 Management's Discussion & Analysis

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

### Apartment Results

For the years ended December 31,

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

### Apartment Revenue

Total apartment revenue for the year ended December 31, 2019, was \$211.1 million, an increase of 11.1% over 2018. Revenue growth was augmented by contributions from recently acquired and developed properties, higher rental rates and improved occupancy.

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

### Apartment Occupancy Analysis by Core Market (% of Residential Rent) <sup>(1)</sup>

For the year ended December 31,	# of Units	Total Occupancy			Same Property Occupancy		
		2019	2018	Change (bps)	2019	2018	Change (bps)
<b>Nova Scotia</b>							
Halifax	5,753	98.3%	96.9%	140	98.3%	97.7%	60
<b>Ontario</b>							
Ottawa <sup>(2)</sup>	1,216	93.0%	96.8%	(380)	97.1%	97.4%	(30)
London	523	97.5%	96.0%	150	97.5%	96.0%	150
Cambridge-GTA	818	98.5%	94.6%	390	98.5%	98.6%	(10)
<b>New Brunswick</b>							
Moncton	1,804	98.3%	97.4%	90	98.3%	97.4%	90
Fredericton	1,529	97.9%	97.5%	40	97.9%	97.5%	40
Saint John	1,202	96.8%	96.6%	20	96.8%	96.6%	20
<b>Newfoundland and Labrador</b>							
St. John's	915	91.5%	93.0%	(150)	91.5%	93.0%	(150)
<b>Prince Edward Island</b>							
Charlottetown	986	99.5%	99.5%	—	99.5%	99.5%	—
<b>Alberta</b>							
Calgary	531	94.7%	94.5%	20	93.1%	93.3%	(20)
Edmonton	579	89.8%	86.1%	370	88.4%	86.3%	210
<b>Other Atlantic</b>	469	97.1%	95.3%	180	97.1%	95.3%	180
Total Apartments (weighted average)	16,325	97.0%	96.3%	70	97.3%	96.9%	40

(1) Occupancy as a percentage of residential rent is calculated as vacancy (in dollars) divided by gross potential residential rent (in dollars) for the period.

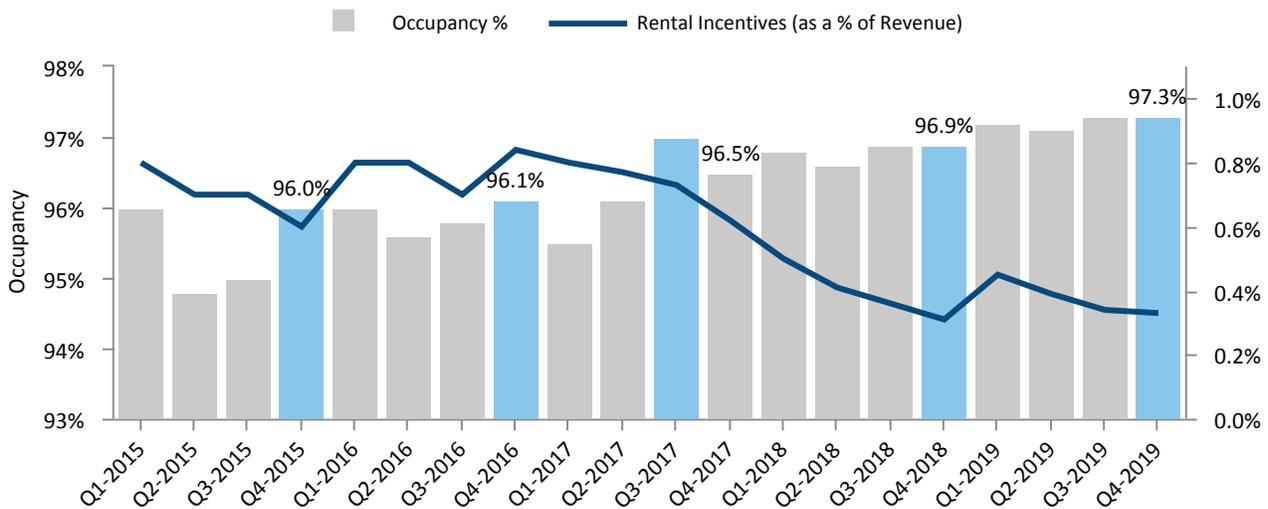
(2) Total occupancy is impacted by Frontier, which was undergoing initial lease-up during 2019.

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

# 2019 Management's Discussion & Analysis

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

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



## Average Rent Analysis by Core Market

As at December 31,

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

## 2019 Management's Discussion & Analysis

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

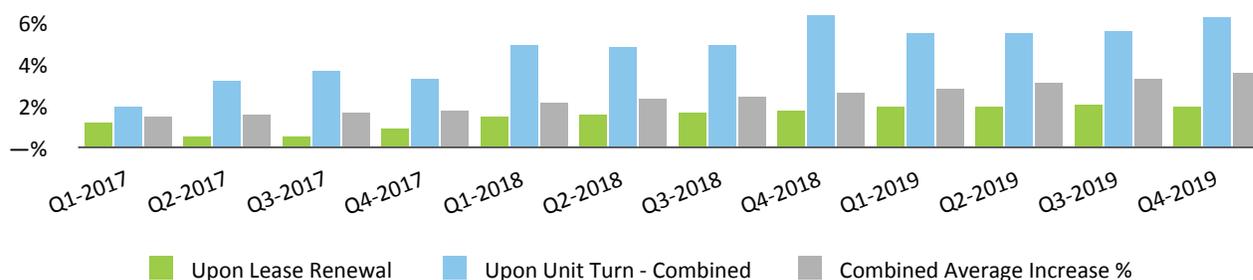
### Same Property Rental Increases – Tenant Renewals versus Unit Turns

Killam turns approximately 30% to 35% of its units each year, with a declining trend in recent years. Upon turn, Killam will typically generate rental increases by raising rates to market and, where market demand exists, by upgrading units for returns of 10%–15% on capital invested. Killam has increased its same property weighted average rental increases by 90 bps to 3.6% in 2019, compared to 2.7% for the same period of 2018. Given strong fundamentals and Killam's rent optimization program, there has been notable appreciation in rental rates on unit turns. The following chart details the average rental increases realized upon turns and lease renewals on a same property basis:

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

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

### Apartments - Historical Same Property Rental Rate Growth



### Apartment Expenses

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

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

### Apartment Utility and Fuel Expenses - Same Property

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

Killam's apartments are heated with natural gas (58%), electricity (32%), oil (6%), steam (2%), geothermal (2%) and propane (less than 1%). Electricity costs relate primarily to common areas, as unit electricity costs are typically paid by tenants, reducing Killam's exposure to the majority of the 5,200 units heated with electricity. Fuel costs associated with central natural gas or oil-fired heating plants are paid by Killam.

## 2019 Management's Discussion & Analysis

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

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

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

Electricity costs for the year ended December 31, 2019, were 3.2% lower than 2018, primarily due to consumption savings from LED lighting retrofits, more than offsetting rising rates, as well as a reduction of unit electricity being included as part of a tenants' monthly rent in certain regions given strong market fundamentals.

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

Heating oil and propane costs decreased by 5.8% for the year ended December 31, 2019, compared to the same period of 2018, as a result of lower consumption due to increased efficiencies from boiler upgrades and switching to natural gas at certain properties.

### Apartment Same Property NOI by Region

For the years ended December 31,

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

# 2019 Management's Discussion & Analysis

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

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## **Halifax**

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

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

## **Ontario**

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

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

## **New Brunswick**

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

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

## **Newfoundland and Labrador**

Killam's St. John's properties accounted for approximately 6% of apartment same property NOI for the year ended December 31, 2019. Same property revenue decreased 1.5% for the year ended December 31, 2019, as compared to 2018. While rental rates have increased by 1.2%, occupancy was 150 bps lower for the year. Lower occupancy in the region is due to softness in the economy, driven by reduced activity in the offshore oil sector and declines in other natural resource sectors, on which the Newfoundland economy is heavily reliant.

Total operating expenses for the year ended December 31, 2019, were 5.1% higher than the same period of 2018. The increase in operating expenses was primarily due to higher staffing costs with an expanded leasing team in place to target the increase in vacancy. In addition, electricity costs were higher in 2019 due to a 6.8% average increase in electricity rates in Newfoundland effective July 1, 2018. In aggregate, same property NOI was 4.1% lower for the year ended December 31, 2019.

## **Prince Edward Island**

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

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

## **Alberta**

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

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

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

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

## 2019 Management's Discussion & Analysis

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

### MHC Results

For the years ended December 31,

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

The MHC segment generated 6.9% of Killam's NOI for the year ended December 31, 2019. The MHC portfolio generates its highest revenues and NOI during the second and third quarters of each year due to the contribution from its nine seasonal communities that earn approximately 60% of their NOI between July and September.

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

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

### Commercial Results

For the year ended December 31,

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

Killam's commercial property portfolio contributed \$7.1 million, or 4.7%, of Killam's total NOI for the year ended December 31, 2019. Killam's commercial property portfolio contains 771,715 SF, located in four of Killam's core markets. The majority of Killam's commercial properties are not included in the same property results as they were recently acquired or are slated for redevelopment and not operating as stabilized properties. Commercial occupancy was 89.6% for the year ended December 31, 2019, compared to 97.1% in 2018. The decrease in occupancy is primarily due to the redevelopment of the Brewery Market in Halifax, resulting in increased vacancy during the renovation process.

In early Q2-2019, planned tenant turnover at the Brewery Market provided Killam with an opportunity to redevelop the vacant space and attract a more diverse tenant base that complements the increased residential density in the area. Due to this turnover, earnings at the Brewery Market were \$0.5 million lower in 2019 compared to 2018. Following the lease-up of the renovated space at the Brewery Market, Management expects NOI to increase by 15% to 20%, from pre-renovated levels.

In 2019, Killam expanded its commercial portfolio with two acquisitions. During May 2019, Killam completed the acquisition of a 50% interest in the Charlottetown Mall, a grocery-anchored enclosed retail complex totaling 352,450 SF located in Charlottetown, PE. This grocery-anchored plaza was 89.4% occupied in 2019. Killam is in the process of preparing a redevelopment plan for the property, which is a 32-acre commercial site with future apartment development opportunities for approximately 300 units.

In June 2019, Killam completed the acquisition of three residential apartment buildings totaling 127 units, one mixed-use commercial and residential building and an adjacent IGA-branded grocery store totaling 33,215 SF located in Dieppe, NB. The commercial space is currently 100% occupied.

# 2019 Management's Discussion & Analysis

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

## PART V

### Other Income and Expenses

#### Other Income

For the years ended December 31,

	2019	2018	% Change
	<b>\$6,059</b>	\$965	527.9%

Other income includes property management fees for jointly held properties, interest on bank balances, net revenue associated with the sale of homes in Killam's MHC segment and net insurance proceeds. The 527.9% increase for the year ended December 31, 2019, was due to net insurance proceeds (\$5.8 million) related to a fire that occurred in July 2019 at a 29-unit apartment building.

#### Financing Costs

For the years ended December 31,

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

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

Mortgage, loan and construction loan interest expense increased \$4.3 million, or 11.4%, for the year ended December 31, 2019, compared to 2018. Killam's mortgage, loan and construction loan liability balance increased by \$110.1 million over the past twelve months as Killam refinanced its existing portfolio's maturing mortgages, obtained financing for acquisitions and developments and repaid certain variable rate debt. The average interest rate on refinancings for the year ended December 31, 2019, was 2.66%, 20 bps lower than the average interest rate on expiring debt.

Deferred financing costs include mortgage assumption fees, application fees and legal costs related to financings and refinancings. These costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. Deferred financing amortization costs decreased 29.0% for the year ended December 31, 2019, as management had expected, due to timing of recognition of CMHC premiums linked to refinancings in 2018 resulting in higher expense in that year. Based on the current portfolio, normalized deferred financing costs are expected to be approximately \$3.0 million per year. This expense may fluctuate with refinancings.

Capitalized interest decreased \$0.9 million for the year ended December 31, 2019, compared to the same period of 2018. Capitalized interest will vary depending on the number of development projects underway and their stages in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

The interest on lease liabilities expense relates to the new requirements under IFRS 16 to record lease obligations at their present value and recognize interest expense over the life of the right-of-use asset. Refer to Note 12 of the consolidated financial statements for the year ended December 31, 2019, for further details.

## 2019 Management's Discussion & Analysis

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

### Depreciation Expense

For the years ended December 31,

	2019	2018	% Change
	<b>\$720</b>	\$859	(16.2)%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment, office furniture, fixtures and computer equipment. Although the vehicles and equipment are used at various properties, they are not considered investment properties and are depreciated for accounting purposes. The decrease in depreciation expense for the year ended December 31, 2019, compared to 2018, was primarily due to the timing of depreciation of software costs.

### Administration Expenses

For the years ended December 31,

	2019	2018	% Change
Administration	<b>\$14,881</b>	\$14,201	4.8%
As a percentage of total revenues	<b>6.0%</b>	6.5%	(50) bps

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

For the year ended December 31, 2019, total administration expenses increased \$0.7 million, or 4.8%, compared to 2018, due to increased software costs, higher compensation and training costs as a result of increased staffing related to portfolio growth, and higher restricted trust unit ("RTU") expense related to stronger REIT performance. Administration expense as a percentage of total revenues is 6.0% for 2019, 50 bps lower than 2018.

### Fair Value Adjustments

For the years ended December 31,

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

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

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

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

## 2019 Management's Discussion & Analysis

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

### Loss on Disposition

For the years ended December 31,

	2019	2018	% Change
	<b>\$1,269</b>	\$197	544.2%

During the year, Killam disposed of a development site in Edmonton and two apartment properties located in Ottawa. The loss on disposition represents the difference between the proceeds from disposition compared to the fair value of the properties less the carrying costs of the related mortgages, as well as deferred financing fees, professional fees and any other directly attributable costs.

### Deferred Tax Expense

For the years ended December 31,

	2019	2018	% Change
	<b>\$40,636</b>	\$31,478	29.1%

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

Killam's deferred tax expense increased \$9.2 million for the year ended December 31, 2019, compared to 2018, primarily due to the changes in fair value gains on investment properties.

## PART VI

### Per Unit Calculations

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

For the years ended December 31,	Weighted Average Number of Units (000s)			Outstanding Number of Units (000s)
	2019	2018	% Change	2019
Trust units	<b>91,565</b>	83,122	10.2%	<b>97,863</b>
Exchangeable units	<b>4,154</b>	3,827	8.5%	<b>4,154</b>
Basic number of units	<b>95,719</b>	86,949	10.1%	<b>102,017</b>
Plus:				
Units under RTU plan	<b>195</b>	236	(17.4)%	—
Diluted number of units	<b>95,914</b>	87,185	10.0%	<b>102,017</b>

## 2019 Management's Discussion & Analysis

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

### Funds from Operations

FFO are recognized as an industry-wide standard measure of real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. Killam calculates FFO in accordance with the REALpac definition except for the deduction of income recorded for accounting purposes related to insurance proceeds. Notwithstanding the foregoing, FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. FFO for the years ended December 31, 2019 and 2018 are calculated as follows:

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

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

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

# 2019 Management's Discussion & Analysis

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

## Adjusted Funds from Operations

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

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

### Calculating Maintenance Capex Reserve for AFFO

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

#### Maintenance Capex Reserve - Apartments

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

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

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

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

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

#### Maintenance Capex Reserve - MHCs and Commercial

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

## 2019 Management's Discussion & Analysis

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

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

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

For the years ended December 31, 2019

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

<sup>(1)</sup> Based on Killam's annual distribution of \$0.65666 for the year ended December 31, 2019, and \$0.63664 for the year ended December 31, 2018.

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

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

## 2019 Management's Discussion & Analysis

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

### Adjusted Cash Flow from Operations

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

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

A reconciliation from cash provided by operating activities (refer to the consolidated statement of cash flows for the year ended December 31, 2019 and 2018) to ACFO is as follows:

For the years ended December 31,

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

<sup>(1)</sup> Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 43.

<sup>(2)</sup> Based on Killam's annual distribution of \$0.65666 for the year ended December 31, 2019, and \$0.63664 for the year ended December 31, 2018.

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

### Cash Provided by Operating Activities and Distributions Declared

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

For the years ended December 31,

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

## 2019 Management's Discussion & Analysis

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

### PART VII

#### Investment Properties

As at December 31,

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

#### Continuity of Investment Properties

As at December 31,

	2019	2018	% Change
<b>Balance, beginning of period</b>	<b>\$2,701,502</b>	<b>\$2,171,372</b>	<b>24.4%</b>
Impact of change in accounting policy	7,115	—	N/A
Acquisition of properties	185,763	248,186	(25.2)%
Transfer to assets held for sale	(15,099)	—	N/A
Transfer from IPUC	36,215	104,283	(65.3)%
Impact of right-of-use asset	1,804	—	N/A
Capital expenditures and development costs <sup>(1)</sup>	71,495	46,488	53.8%
Fair value adjustment - Apartments	208,624	118,601	75.9%
Fair value adjustment - MHCs	38,540	5,271	631.2%
Fair value adjustment - Other	(1,549)	7,301	(121.2)%
<b>Balance, end of period</b>	<b>\$3,234,410</b>	<b>\$2,701,502</b>	<b>19.7%</b>

<sup>(1)</sup> Development costs are costs incurred related to development projects subsequent to when they were transferred from IPUC to investment properties.

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

For the years ended December 31,

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

Killam's weighted average cap-rate for its apartment and MHC portfolios as at December 31, 2019 was 4.76% and 5.65%, a decrease of 39 bps and 111 bps compared to December 31, 2018. The cap-rate compression relates to continued downward pressure on cap-rates across the industry, most notably in Ontario and Halifax, and recent comparable transactions for MHC properties.

# 2019 Management's Discussion & Analysis

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

## 2019 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Ownership Interest	Property Type	Units/SF	Purchase Price <sup>(1)</sup>	
						Income-producing Properties	Land for Development
9 Dietz	Waterloo, ON	15-Jan-19	100%	Development land	—	\$—	\$1,500
11 Harold Doherty	Fredericton, NB	18-Apr-19	100%	Apartment	59	8,100	—
Charlottetown Mall	Charlottetown, PE	17-May-19	50%	Retail	176,225	23,750	—
Grid 5 <sup>(2)</sup>	Calgary, AB	14-Jun-19	100%	Apartment	154	42,700	—
Silver Spear <sup>(2)</sup>	Mississauga, ON	14-Jun-19	100%	Apartment & development land	100	27,200	3,600
59 Irvin	Kitchener, ON	21-Jun-19	100%	Development land	—	—	150
Dieppe Village <sup>(3)</sup>	Moncton, NB	27-Jun-19	100%	Apartment & retail	127	28,000	900
150 Lian	Fredericton, NB	20-Aug-19	100%	Apartment	—	9,250	—
690 University Ave	Charlottetown, PE	15-Oct-19	50%	Retail	—	1,150	—
Oceanic	Shediac, NB	1-Nov-19	100%	Seasonal campground	—	3,800	—
125 & 145 Canaan	Moncton, NB	22-Nov-19	100%	Apartment	—	9,520	—
The Link	Edmonton, AB	25-Nov-19	100%	Apartment	—	31,500	—
<b>Total Acquisitions</b>						<b>184,970</b>	<b>6,150</b>

<sup>(1)</sup> Purchase price does not include transaction costs.

<sup>(2)</sup> Killam acquired a 50% interest in each property and now holds 100% ownership. The units shown above represent 50% of the total apartment units.

<sup>(3)</sup> Dieppe Village includes 127 apartment units (\$21.4 million) and commercial space (\$6.6 million).

### 11 Harold Doherty

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

### Charlottetown Mall

On May 17, 2019, Killam completed its previously announced acquisition of a 50% interest in the Charlottetown Mall, located in Charlottetown, PE, from RioCan REIT ("RioCan") at a purchase price of \$23.8 million for an all-cash yield of 6.7%. This stabilized, grocery-anchored, enclosed mall is a 352,450 SF retail complex and is the dominant shopping centre in Prince Edward Island. It is located on 32 acres with future multi-family development opportunities of up to 300 units. The retail portion of the property will continue to be managed by RioCan, with the future residential project being managed by Killam. On October 15, 2019, Killam also jointly acquired an adjacent parcel of land with two commercial tenants.

### Grid 5 / Silver Spear

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

### Dieppe Village

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

### 150 Lian

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

### 125 & 145 Canaan

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

### The Link

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

## 2019 Management's Discussion & Analysis

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### 2019 Dispositions - Investment Properties

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

<sup>(1)</sup> Sale price does not include transaction costs. Outstanding mortgages and loans were repaid in the amount of \$8.9 million with proceeds from the dispositions.

### Investment Properties Under Construction

As at December 31,

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

Killam's definition of IPUC includes only active development projects that have broken ground. Land for future development that is not yet in active development is classified as land for development. Developments underway as at December 31, 2019 include:

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

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

<sup>(2)</sup> Killam also holds a 10% interest in the Nolan Hill development project in Calgary, totaling 23 units, which is included in IPUC.

<sup>(3)</sup> Project budget excluding land costs.

#### Gloucester City Centre

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

The first phase of the development, Frontier, a 23-storey tower containing 228 units, was completed in June 2019. The total cost of the development of Phase I was approximately \$75.0 million (\$37.5 million for Killam's 50% interest), resulting in an all-cash yield in the range of 5.0% - 5.25%. The building is currently 97% leased. Construction of Latitude, the second phase of the development, containing 209 units, broke ground during the second quarter of 2019 and is expected to take 24 months to complete. The total cost is budgeted at \$87.0 million (\$43.5 million for Killam's 50% interest).

#### Shorefront

During 2018, Killam acquired land to commence construction on the 78-unit, five-storey, Shorefront development in Charlottetown, PE. The project budget is approximately \$22.0 million (\$282,000/unit), resulting in an expected all-cash yield in the range of 5.25% - 5.5%, 50-75 bps premium over the market cap-rate of a similar quality asset. The development broke ground in October 2018 and is scheduled for completion in mid-2020.

#### The Kay

During 2018, Killam received final approval from the city of Mississauga to proceed with The Kay development on land adjacent to its existing 199-unit building. The budget for this development is \$56.0 million, or \$437,500 per door, with an anticipated all-cash yield in the range of 4.75% - 5.0%, approximately a 125-175 bps premium over the market cap-rate for a similar quality asset.

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

### 10 Harley Street

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

### Nolan Hill

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

## Land for Development

As at December 31,

	2019	2018	% Change
<b>Balance, beginning of period</b>	<b>\$61,028</b>	\$28,165	116.7%
Fair value adjustment	(1,663)	1,800	(192.4)%
Capital expenditures	5,700	3,972	43.5%
Interest capitalized	1,513	1,477	2.4%
Acquisitions	6,200	28,347	(78.1)%
Dispositions	—	(1,460)	(100.0)%
Transfer to IPUC	(15,050)	(1,273)	1,082.2%
Transfer to held for sale	(18,401)	—	N/A
<b>Balance, end of period</b>	<b>\$39,327</b>	\$61,028	(35.6)%

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

Killam has a robust development pipeline. Seventy percent of Killam's development pipeline is outside Atlantic Canada. Killam targets yields of 5.0% to 6.0% on developments, 50–150 bps higher than the expected cap-rate value on completion. Building out the \$850 million pipeline at a 100 bps spread should create approximately \$200 million in NAV growth for unitholders. Killam currently has the following land available for future development:

Property	Location	Killam's Interest	Development Potential (# of Units) <sup>(1)</sup>	Status	Estimated Year of Completion
<b>Developments expected to start in the next 24 months</b>					
The Governor <sup>(2)</sup>	Halifax, NS	100%	12	In design and approval process	2021
Weber Scott Pearl	Kitchener, ON	100%	170	In design and approval process	2022
Westmount Place (Phase 1)	Waterloo, ON	100%	114	In design	2022
<b>Developments expected to start in 2022-2026</b>					
Haviland Street	Charlottetown, PE	100%	99	In design	2022
Gloucester City Centre (Phase 3-4)	Ottawa, ON	50%	200	In design	2024
Westmount Place (Phase 2-5)	Waterloo, ON	100%	908	In design	2028
<b>Additional future development projects</b>					
Gloucester City Centre (Phase 5)	Ottawa, ON	50%	100	In design and approval process	TBD
Carlton Terrace	Halifax, NS	100%	104	In design and approval process	TBD
Kanata Lakes	Ottawa, ON	50%	40	In design and approval process	TBD
Christie Point	Victoria, BC	100%	312	Future development	TBD
Medical Arts	Halifax, NS	100%	200	Future development	TBD
Carlton Houses	Halifax, NS	100%	80	Future development	TBD
Topsail Road	St. John's, NL	100%	225	Future development	TBD
Block 4	St. John's, NL	100%	80	Future development	TBD
<b>Total development opportunities</b>			<b>2,644</b>		

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

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

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

## 2019 Management's Discussion & Analysis

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### Assets Held for Sale

Killam determined that a parcel of land for development in Calgary met the criteria for classification as assets held for sale as at December 31, 2019. The property has a carrying value of \$14.2 million (Killam's 40% interest).

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

### Capital Improvements

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

During the year ended December 31, 2019, Killam invested \$62.0 million, compared to \$46.5 million for the year ended December 31, 2018. Killam expects to invest between \$70 and \$75 million during 2020 in capital improvements. This increase reflects additional capital allocated to Killam's expanded repositioning and energy efficiency programs, as well as targeted spending for curb appeal projects to enhance value and timing of multi-phase cladding and building envelope upgrades. Killam has also increased capital associated with its commercial portfolio, specifically with leaseholds for new tenants at its Brewery Market and curb appeal investments at Westmount Place.

For the years ended December 31,

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

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

### Apartments - Capital Investment

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

For the years ended December 31,

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

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

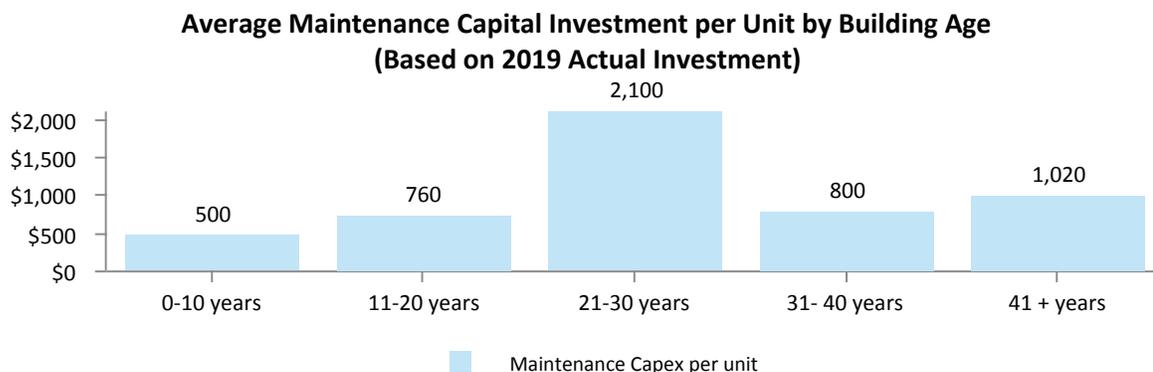
Killam invested \$3,408 per unit for the year ended December 31, 2019, compared to \$2,718 per unit for the year ended December 31, 2018. This increase is attributable to Killam's additional capital investment related to value-enhancing improvements at its properties, which is supporting accelerating rental rate growth.

Killam's focus on development and acquisition of newer properties translates into a lower capital investment per unit than many other apartment owners in Canada. Thirty-three percent of Killam's apartments, as a percentage of 2020 forecasted NOI, were built in the past 10 years, and the average age of Killam's portfolio is 28 years. This portfolio of newer assets allows Killam to focus on value-enhancing opportunities as the maintenance capital requirements are lower.

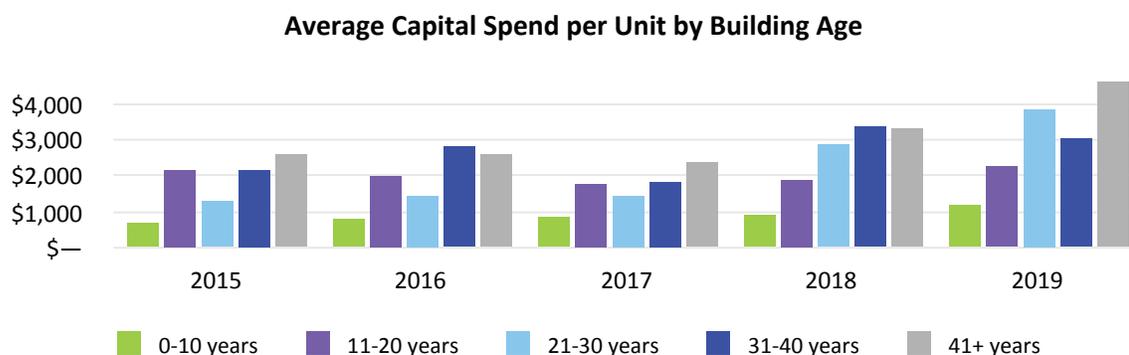
Maintenance capital requirements vary significantly by age of property. As the following chart illustrates, the approximate 2019 maintenance capex for properties built in the past 10 years was \$500 per unit vs. \$1,020 per unit for units that were 40+ years old.

## 2019 Management's Discussion & Analysis

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



### Building Improvements

Of the \$52.9 million total capital investment in the apartment segment for the year ended December 31, 2019, approximately 49% was invested in building improvements, compared to 56% of the total capital spend for the year ended December 31, 2018. These investments include exterior cladding and brick work, balcony refurbishments, roof upgrades, common area renovations and energy and water efficiency investments, such as LED lighting upgrades, to increase the quality and efficiency of Killam's portfolio. The year-over-year variance relates primarily to the timing of multi-phase building envelope projects, exterior and interior upgrades to modernize properties and an increase in energy efficiency investments.

### Suite Renovations and Repositionings

Killam invested \$18.5 million in suite renovations during the year ended December 31, 2019, a 49.1% increase over the total investment of \$12.4 million for the year ended December 31, 2018. This increase is due to the recent acceleration of Killam's repositioning program. Killam continues to focus on unit renovations to maximize occupancy and rental increases. Killam targets a minimum return on investment of 10% for its suite renovations with monthly rental rate increases of 10%–30%. The timing of suite renovation investment is influenced by tenant turnover, market conditions and individual property requirements. The length of time that Killam has owned a property and the age of the property also impact capital requirements. During 2019, Killam has completed upgrades to 304 units, with an average investment of approximately \$25,000 per suite, an average ROI of 13%.

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

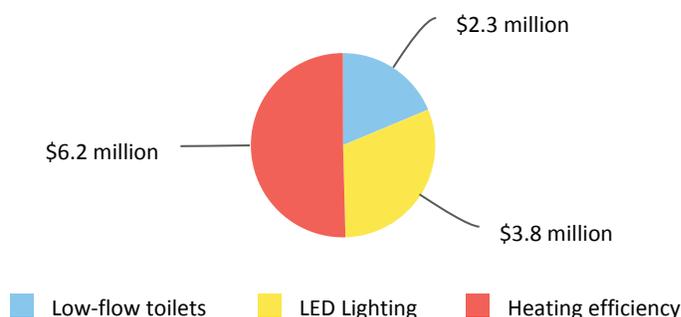
### Expanding our Sustainability Focus

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

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



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

### MHCs - Capital Investment

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

For the years ended December 31,

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

Management expects to invest between \$700 and \$950 per MHC site annually. Consistent with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is considered value enhancing. Maintenance capital includes costs to support the existing infrastructure, and value-enhancing capital includes improvements to roadways, work to accommodate future expansion, and various community enhancements. A portion of MHC capital may be recovered through above guideline increases in provinces with rent control, leading to increased NOI from the investments.

Total capital investment during the year ended December 31, 2019 was \$5.0 million, up from \$3.7 million for the year ended December 31, 2018. The increase in capital spend is due to increased investment in various community enhancements. As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community.

### Commercial - Capital Investment

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

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### Mortgages and Other Loans

The table below outlines Killam's key debt metrics:

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

(1) Ratio calculated net of cash.

Killam's long-term debt consists largely of fixed-rate, long-term mortgages. Mortgages are secured by a first or second charge against individual properties. Killam's weighted average interest rate on mortgages as at December 31, 2019, was 2.90%, 5 bps lower compared to the rate as at December 31, 2018.

Total debt as a percentage of total assets was 43.4% as at December 31, 2019, compared to 49.8% as at December 31, 2018. The reduction in total leverage is attributable to higher valuations associated with investment properties, a lower balance on Killam's credit facilities at December 31, 2019, versus December 31, 2018, a reduction in variable rate debt and an increase in unencumbered assets. Killam does anticipate a slight uptick in the debt to total assets ratio in Q1-2020, when debt is placed on an acquisition completed in all-cash late in 2019. Management is focused on maintaining conservative debt levels. Total debt to total assets is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. A 10 bps increase in the weighted average cap-rate as at December 31, 2019, would increase the debt as a percentage of assets by 80 bps.

### Refinancings

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

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

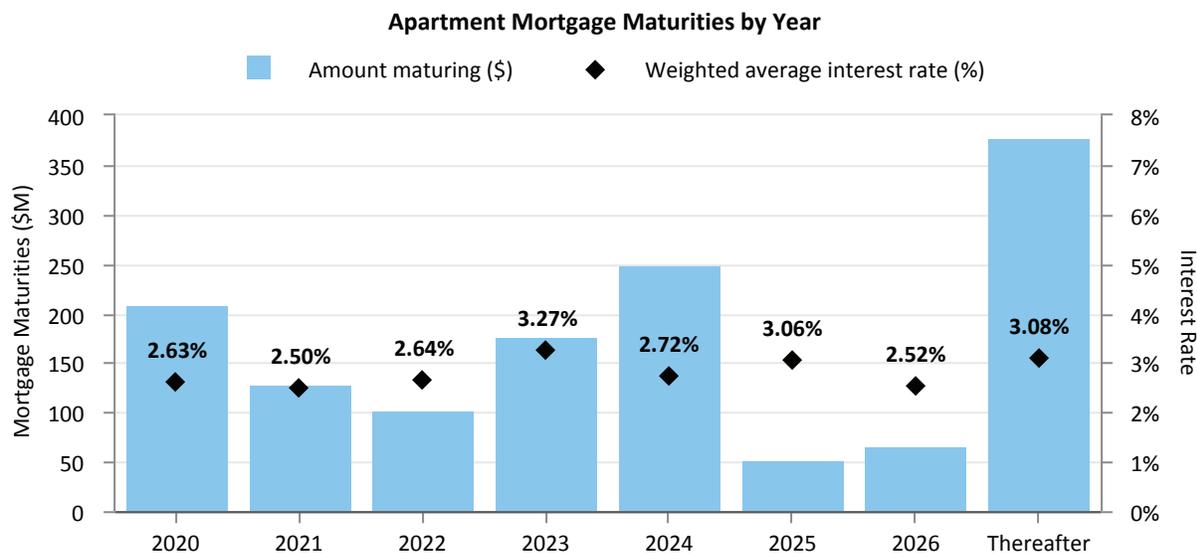
The following table details the maturity dates and average interest rates of mortgage and vendor debt, and the percentage of apartment mortgages that are CMHC-insured by year of maturity:

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

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

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Access to mortgage debt is essential in refinancing maturing debt and financing acquisitions. Management has diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered maturity dates to manage interest rate risk. Management anticipates continued access to mortgage debt for both acquisitions and refinancings. Access to CMHC-insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee and therefore are able to lend at more favorable rates. As at December 31, 2019, approximately 85.2% of Killam's apartment mortgage debt were CMHC-insured (79.6% of total mortgages, as MHC and commercial mortgages are not eligible for CMHC insurance) (December 31, 2018 - 84.6% and 79.7%). The weighted average interest rate on the CMHC-insured mortgages was 2.77% as at December 31, 2019 (December 31, 2018 - 2.95%).

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

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

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

### Future Contractual Debt Obligations

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

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

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### Credit Facilities

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

The \$70.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). The facility includes a \$30.0 million demand revolver and a \$40.0 million committed revolver as well as an accordion option to increase the \$70.0 million facility by an additional \$20.0 million. Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at December 31, 2019, Killam had assets with a carrying value of \$84.1 million pledged as first mortgage ranking and \$353.2 million pledged as second mortgage ranking to the line. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2019.

The \$5.0 million facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at December 31, 2019, Killam had assets with a carrying value of \$2.2 million pledged as collateral (December 31, 2018 - \$2.1 million). The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2019.

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

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

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

### Construction Loans

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

## 2019 Management's Discussion & Analysis

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

### Unitholders' Equity

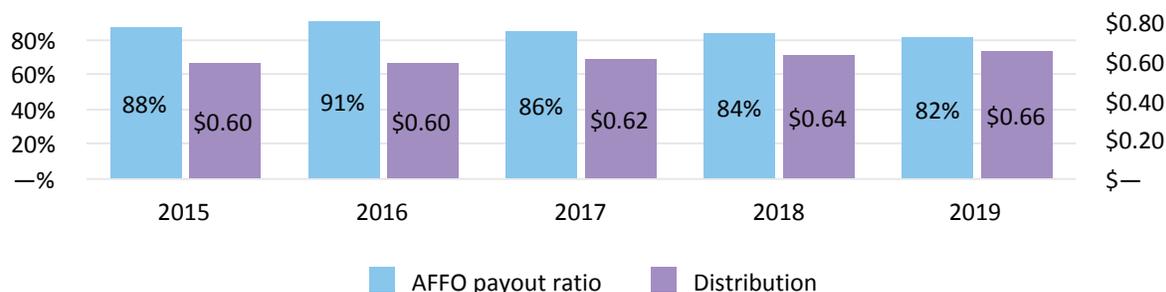
As Killam is an open-ended mutual fund trust, unitholders of trust units are entitled to redeem their trust units at any time at prices determined and payable in accordance with the conditions specified in Killam's DOT. Consequently, under IFRS, trust units are defined as financial liabilities; however,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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the trust unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of \$50 thousand for all redemptions in a calendar month, or a note payable. For the year ended December 31, 2019, no unitholders redeemed units.

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

**Killam's Annual Distribution and AFFO Payout Ratio**



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

### Distribution Reinvestment Plan and Net Distributions Paid

For the years ended December 31,

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

# 2019 Management's Discussion & Analysis

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

## Liquidity and Capital Resources

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

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

- (i) Cash flows from operating activities are expected to be sufficient to fund the current level of distributions and maintenance capex.
- (ii) Killam's \$70.0 million revolving credit facility has an accordion feature to increase the facility up to \$90.0 million. Including this feature, Killam's credit facilities, using 60% mortgage leverage, provided acquisition capacity over \$225 million as at December 31, 2019.
- (iii) The retained portion of annual ACFO, mortgage refinancings and construction loans are expected to be sufficient to fund value-enhancing capex, principal repayments and developments.
- (iv) Upcoming mortgage maturities are expected to be renewed through Killam's mortgage program.

Killam is in compliance with all financial covenants contained in the DOT and through its credit facilities. Under the DOT, total indebtedness of Killam is limited to 70% of gross book value determined as the greater of (i) the value of Killam's assets as shown on the most recent consolidated statement of financial position and (ii) the historical cost of Killam's assets. Total debt as a percentage of assets as at December 31, 2019 was 43.4%.

## PART VIII

### Quarterly Results & Discussion of Q4 Operations

#### Summary of Quarterly Results

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

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

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

## 2019 Management's Discussion & Analysis

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

### Q4 Consolidated Results

For the three months ended December 31,

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

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

### Q4 Same Property NOI

For the three months ended December 31,

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

### Apartment Same Property

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

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

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

## 2019 Management's Discussion & Analysis

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

### Q4-2019 Occupancy

#### Apartment Occupancy Analysis by Core Market (% of Residential Rent) <sup>(1)</sup>

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

(1) Occupancy as a percentage of residential rent is calculated as vacancy (in dollars) divided by gross potential residential rent (in dollars) for the period.

(2) Total occupancy is impacted by Frontier, which is undergoing initial lease-up.

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

## 2019 Management's Discussion & Analysis

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

### Apartment Same Property NOI by Region

Three months ended December 31,

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

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

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

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

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

## 2019 Management's Discussion & Analysis

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

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

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

### MHC Results

For the three months ended December 31,

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

#### MHC Same Property

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

### Commercial Results

For the three months ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
Property revenue	<b>\$3,586</b>	\$2,930	22.4%	<b>\$209</b>	\$230	(9.1)%	<b>\$3,377</b>	\$2,700	25.1%
Property operating expenses	<b>1,663</b>	1,295	28.4%	<b>102</b>	94	8.5%	<b>1,561</b>	1,201	30.0%
NOI	<b>\$1,923</b>	\$1,635	17.6%	<b>\$107</b>	\$136	(21.3)%	<b>\$1,816</b>	\$1,499	21.1%

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

## 2019 Management's Discussion & Analysis

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

### Q4 FFO and AFFO

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

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

# 2019 Management's Discussion & Analysis

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

## PART XI

### Selected Consolidated Financial Information

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

### Risk Management

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

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

Killam is exposed to other risks, as outlined below:

#### Interest Rate Risk

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

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

#### Liquidity Risk

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

#### Increased Supply Risk

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

# 2019 Management's Discussion & Analysis

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

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## **Credit Risk**

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill the commitments of their lease. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted for all new leases, and Killam also obtains a security deposit to assist in potential recovery requirements. Killam's bad debt expense has historically been less than 0.4% of revenues, and none of Killam's tenants account for more than 3% of tenant receivables.

## **Cyber Security Risk**

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

## **Development Risk**

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

## **Environmental Risk**

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

## **General Uninsured Losses**

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

## **Rent Control Risk**

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

## **Utility, Energy and Property Tax Risk**

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

## **Legal Rights Normally Associated with the Ownership of Shares of a Corporation**

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

# 2019 Management's Discussion & Analysis

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

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## **Fluctuation and Availability of Cash Distributions**

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

## **Ability of Unitholders to Redeem Units**

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

## **Exchangeable Units**

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

## **Taxation-related Risks**

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

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

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

## 2019 Management's Discussion & Analysis

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

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

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

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

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

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

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

### **Other Canadian Tax Matters**

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

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

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## **Competition for Real Property Investments**

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

## **Future Acquisitions of Real Property Investments**

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

## **Zoning and Approval**

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

## **Dependence on Key Personnel**

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

## **Market for Securities and Price Volatility**

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

## **Co-ownership**

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

## **Ground Leases**

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

## **Climate Change**

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

# 2019 Management's Discussion & Analysis

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

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## Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

### Critical Judgments in Applying Accounting Policies

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

#### (i) Income taxes

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

#### (ii) Investment property and internal capital program

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

#### (iii) Financial instruments

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

#### (iv) Basis of consolidation

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

#### (v) Revenue recognition

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

### Key Accounting Estimates and Assumptions

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

#### (i) Valuation of investment properties

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

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

#### (ii) Deferred unit-based compensation

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

#### (iii) Deferred taxes

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

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

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## Future Accounting Policy Changes

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

### **Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material***

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

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

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

## Disclosure Controls, Procedures and Internal Controls

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

### **Disclosure Controls and Procedures**

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

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

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

### **Internal Controls over Financial Reporting**

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

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

## 2019 Management's Discussion & Analysis

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

### Related Party Transactions

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

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

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

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

### Subsequent Events

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

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

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

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

## Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and management's discussion and analysis (MD&A) have been prepared by the management of Killam Apartment REIT 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, 2019, 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.

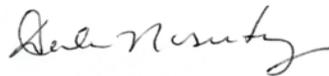
Ernst & Young LLP, the auditors appointed by the Unitholders, have examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the consolidated financial statements. Their report as auditors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

The consolidated financial statements have been further reviewed and approved by the Board of Trustees and its Audit Committee. This committee meets regularly with management and the auditors, who have full and free access to the Audit Committee.

February 12, 2020



Philip Fraser  
*President and Chief Executive Officer*



Dale Noseworthy  
*Chief Financial Officer*

## Independent auditor's report

To the Unitholders of  
**Killam Apartment Real Estate Investment Trust**

### Opinion

We have audited the consolidated financial statements of **Killam Apartment Real Estate Investment Trust** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.



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## **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Gina Kinsman.

Halifax, Canada  
February 12, 2020

*Ernst & Young LLP*  
Chartered Professional Accountants



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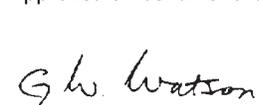
# Consolidated Statements of Financial Position

In thousands of Canadian dollars,

	Note	December 31, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties	[5]	\$3,320,604	\$2,799,693
Property and equipment	[8]	7,113	5,659
Other non-current assets		295	530
		<b>\$3,328,012</b>	<b>\$2,805,882</b>
<b>Current assets</b>			
Cash		\$12,801	\$3,789
Rent and other receivables	[10]	9,025	3,025
Other current assets	[9]	16,099	11,710
		<b>37,925</b>	<b>18,524</b>
Assets held for sale	[6]	14,163	—
<b>TOTAL ASSETS</b>		<b>\$3,380,100</b>	<b>\$2,824,406</b>
<b>EQUITY AND LIABILITIES</b>			
Unitholders' equity	[17]	\$1,602,254	\$1,168,814
Non-controlling interest		113	136
<b>Total Equity</b>		<b>\$1,602,367</b>	<b>\$1,168,950</b>
<b>Non-current liabilities</b>			
Mortgages and loans payable	[11]	\$1,161,702	\$1,060,082
Lease liabilities	[12]	8,919	—
Exchangeable Units	[16]	78,668	66,207
Deferred income tax	[23]	175,048	134,684
Deferred unit-based compensation	[19]	5,363	4,579
		<b>\$1,429,700</b>	<b>\$1,265,552</b>
<b>Current liabilities</b>			
Mortgages and loans payable	[11]	\$276,568	\$232,394
Credit facilities	[13]	—	53,350
Construction loans	[14]	24,851	60,502
Accounts payable and accrued liabilities	[15]	46,614	43,658
		<b>348,033</b>	<b>389,904</b>
<b>Total Liabilities</b>		<b>\$1,777,733</b>	<b>\$1,655,456</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>\$3,380,100</b>	<b>\$2,824,406</b>
<b>Commitments and contingencies</b>	[28]		
<b>Financial guarantees</b>	[29]		

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees



Trustee



Trustee

# Consolidated Statements of Income and Comprehensive Income

*In thousands of Canadian dollars,*

		Year ended December 31,	
	Note	2019	2018
<b>Property revenue</b>	[20]	<b>\$241,749</b>	\$215,959
<b>Property operating expenses</b>			
Operating expenses		(37,187)	(33,447)
Utility and fuel expenses		(23,515)	(21,705)
Property taxes		(28,711)	(25,095)
		<b>(89,413)</b>	(80,247)
<b>Net operating income</b>		<b>\$152,336</b>	\$135,712
Other income	[21]	6,059	965
Financing costs	[22]	(47,443)	(42,648)
Depreciation		(720)	(859)
Administration		(14,881)	(14,201)
Fair value adjustment on unit-based compensation		(1,590)	(553)
Fair value adjustment on Exchangeable Units	[16]	(12,461)	(6,373)
Fair value adjustment on investment properties	[5]	244,130	134,803
Loss on disposition		(1,269)	(197)
<b>Income before income taxes</b>		<b>324,161</b>	206,649
Deferred tax expense	[23]	(40,636)	(31,478)
<b>Net income</b>		<b>\$283,525</b>	\$175,171
<b>Other comprehensive income</b>			
<b>Item that may be reclassified subsequently to net income</b>			
Amortization of loss in AOCL to financing costs		—	37
<b>Comprehensive income</b>		<b>\$283,525</b>	\$175,208
<b>Net income (loss) attributable to:</b>			
Unitholders		283,536	175,144
Non-controlling interest		(11)	27
		<b>\$283,525</b>	\$175,171
<b>Comprehensive income (loss) attributable to:</b>			
Unitholders		283,536	175,181
Non-controlling interest		(11)	27
		<b>\$283,525</b>	\$175,208

See accompanying notes to the *consolidated* financial statements.

# Consolidated Statements of Changes in Equity

In thousands of Canadian dollars,

Year ended December 31, 2019	Trust Units	Contributed Surplus	Retained Earnings	Non-controlling Interest	Total Equity
As at January 1, 2019	\$798,473	\$795	\$369,546	\$136	\$1,168,950
Distribution reinvestment plan	17,651	—	—	—	17,651
Deferred unit-based compensation	1,298	—	—	—	1,298
Issued for cash	191,744	—	—	—	191,744
Net income	—	—	283,536	(11)	283,525
Distributions on non-controlling interest	—	—	—	(12)	(12)
Distributions declared and paid	—	—	(55,349)	—	(55,349)
Distributions payable	—	—	(5,440)	—	(5,440)
As at December 31, 2019	\$1,009,166	\$795	\$592,293	\$113	\$1,602,367

Year ended December 31, 2018	Trust Units	Contributed Surplus	Retained Earnings	AOCL	Non-controlling Interest	Total Equity
As at January 1, 2018	\$718,858	\$795	\$247,965	(\$37)	\$141	\$967,722
Exchange of Exchangeable Units	1,054	—	—	—	—	1,054
Distribution reinvestment plan	13,919	—	—	—	—	13,919
Deferred unit-based compensation	678	—	—	—	—	678
Issued for cash	54,852	—	—	—	—	54,852
Issuance of units for acquisitions	9,112	—	—	—	—	9,112
Net income	—	—	175,144	—	27	175,171
Amortization of loss on forward interest rate hedge	—	—	—	37	—	37
Distributions on non-controlling interest	—	—	—	—	(32)	(32)
Distributions declared and paid	—	—	(48,936)	—	—	(48,936)
Distributions payable	—	—	(4,627)	—	—	(4,627)
As at December 31, 2018	\$798,473	\$795	\$369,546	\$—	\$136	\$1,168,950

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

In thousands of Canadian dollars,

		Year ended December 31,	
	Note	2019	2018
<b>OPERATING ACTIVITIES</b>			
Net income		\$283,525	\$175,171
<b>Add (deduct) items not affecting cash</b>			
Fair value adjustments		(230,080)	(127,877)
Depreciation		720	859
Amortization of deferred financing		3,093	4,354
Non-cash compensation expense		1,918	1,513
Deferred income taxes		40,364	31,478
Loss on disposition		1,269	197
Loss on derivative liability		235	129
Interest expense on Exchangeable Units		2,727	2,453
Straight-line rent		(423)	154
Interest expense on lease liability		298	—
Net change in non-cash operating activities	[20]	(8,438)	1,307
<b>Cash provided by operating activities</b>		<b>\$95,208</b>	<b>\$89,738</b>
<b>FINANCING ACTIVITIES</b>			
Deferred financing costs paid		(5,384)	(8,429)
Net proceeds on issuance of Units		191,729	54,852
Cash paid on vesting of restricted Units		(1,424)	(1,289)
Cash paid on lease liabilities		(133)	—
Mortgage financing		332,658	286,609
Mortgages repaid		(191,892)	(85,579)
Mortgage principal repayments		(44,792)	(39,662)
Credit facility (repayments) proceeds		(53,350)	53,350
Proceeds from construction loans		28,726	19,455
Construction loans repayments		(64,377)	—
Distributions paid to non-controlling interest		(12)	(32)
Distributions to Unitholders and Exchangeable Unitholders		(45,041)	(41,618)
<b>Cash provided by financing activities</b>		<b>\$146,708</b>	<b>\$237,657</b>
<b>INVESTING ACTIVITIES</b>			
Decrease in restricted cash		811	574
Acquisition of investment properties, net of debt assumed		(133,426)	(229,349)
Disposition of investment properties		11,520	1,460
Development of investment properties		(38,390)	(60,477)
Capital expenditures		(73,419)	(47,814)
<b>Cash used in investing activities</b>		<b>(\$232,904)</b>	<b>(\$335,606)</b>
<b>Net increase (decrease) in cash</b>		<b>9,012</b>	<b>(8,211)</b>
Cash, beginning of year		3,789	12,000
<b>Cash, end of year</b>		<b>\$12,801</b>	<b>\$3,789</b>

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

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

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## 1. Organization of the Trust

Killam Apartment Real Estate Investment Trust ("Killam" or the "Trust") is an unincorporated open-ended mutual fund trust created pursuant to the amended and restated Declaration of Trust ("DOT"), dated November 27, 2015, under the laws of the Province of Ontario. Killam specializes in the acquisition, management and development of multi-residential apartment buildings, manufactured home communities ("MHCs") and commercial properties in Canada.

The consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at and for the year ended December 31, 2019. Killam's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8.

## 2. Significant Accounting Policies

### (A) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Trust for the year ended December 31, 2019 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on February 12, 2020.

### (B) Basis of Presentation

The consolidated financial statements of Killam have been prepared on a historical cost basis, except for investment properties, deferred unit-based compensation, a derivative asset and Exchangeable Units, which have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The consolidated financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is Killam's functional currency, and all values are rounded to the nearest thousand (\$000), except per unit amounts or as noted.

### (C) Basis of Consolidation

#### (i) Subsidiaries

The consolidated financial statements comprise the assets and liabilities of all subsidiaries and the results of all subsidiaries for the financial year. Killam and its subsidiaries are collectively referred to as Killam in these consolidated annual financial statements. Non-controlling interest represents the portion of profit or loss and net assets not held by Killam and is presented separately in the consolidated statements of income and comprehensive income and within equity in the consolidated statements of financial position, separately from unitholders' 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.

# Notes to the Consolidated Financial Statements

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

## 2. Significant Accounting Policies (continued)

Killam's investments in subsidiaries, all of which are incorporated in Canada, are listed in the following table:

Subsidiary	% Interest
Killam Apartment General Partner Ltd.	100%
Killam Apartment Limited Partnership	100%
Killam Properties Inc.	100%
Killam Properties SGP Ltd.	100%
Killam Apartment Subsidiary Limited Partnership	100%
661047 N.B Inc.	100%
Killam Investments Inc.	100%
Killam Investments (PEI) Inc.	100%
Killam Properties Apartments Trust	100%
Killam Properties MHC Trust	100%
Blackshire Court Limited	100%
Killam - Keith Development Ltd.	100%
Killam KamRes (Silver Spear) Inc.	100%
Killam KamRes (Grid 5) Inc.	100%
Blackshire Court Limited Partnership	97%
Killam KamRes (Kanata Lakes) I Inc.	50%
Killam KamRes (Kanata Lakes) II Inc.	50%
Killam KamRes (Kanata Lakes) III Inc.	50%
Killam KamRes (Kanata Lakes) IV Inc.	50%
Riotrin Properties (Gloucester 3) Inc.	50%
AKK 4th Avenue Inc.	40%

### (ii) Joint arrangements

Killam has interests in three properties (seven buildings), two development projects and land for future development that are subject to joint arrangements. Killam has assessed the nature of its joint arrangements as at December 31, 2019 and determined them to be joint operations. For joint operations, Killam recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions on the consolidated statements of financial position and consolidated statements of income and comprehensive income. All balances and effects of transactions between joint operations and Killam have been eliminated to the extent of its interest in the joint operations.

# Notes to the Consolidated Financial Statements

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

## 2. Significant Accounting Policies (continued)

### (D) Property Asset Acquisitions

At the time of acquisition of a property or a portfolio of investment properties, Killam evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, *Business Combinations* ("IFRS 3") is only applicable if it is considered that a business has been acquired. A business according to IFRS 3 is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to Killam. When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, Killam applies judgment when determining whether an integrated set of activities is acquired in addition to the property or portfolio of properties.

When an acquisition does not represent a business as defined under IFRS 3, Killam classifies these properties or a portfolio of properties as an asset acquisition. Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at their relative fair values at the acquisition date. Acquisition-related transaction costs are capitalized to the property. All of Killam's acquisitions have been classified as asset acquisitions.

### (E) Revenue Recognition

#### (i) Rental income

Revenue from rental properties represents the majority of Killam's revenue and includes rents from tenants under leases, parking income, laundry income and other miscellaneous income paid by the tenants under the terms of their existing leases. Rental revenue from investment properties is recognized on a straight-line basis over the lease term. Rental payments are due from tenants at the beginning of the month. The operating leases entered into with tenants create a legally enforceable right to control the use of an identified asset by the tenant for a period of time and also require Killam to provide additional services. IFRS 16, *Leases* ("IFRS 16"), provides guidance on "lease components" such as base rent, realty tax and insurance recoveries, which therefore are outside of the scope of IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). Property management and ancillary income (such as utilities, parking and laundry) are considered non-lease components and are within the scope of IFRS 15, *Revenue from Contracts with Customers*. The performance obligation for the property management and ancillary services is satisfied over time, which is generally the lease term. The Trust applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

#### (ii) Other income

Other corporate income includes interest income and management fees. Interest income is recognized as earned, and management fees are recorded as services are provided.

#### (iii) Service charges and expenses recoverable from tenants

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

#### (iv) Manufactured home sales

Where revenue is obtained from the sale of manufactured homes, it is recognized when control has 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.

#### (v) Straight-line rent

Certain commercial lease agreements contain changes in rental rates over the term of the lease. Total rental income is recorded on a straight-line basis over the life of the lease agreement. An accrued rent receivable is recorded for the difference between the straight-line rent recorded in property revenue and the rent that is contractually due from tenants. Tenant incentives are amortized on a straight-line basis over the term of existing leases and the amortization is shown as a reduction in property revenue.

#### (vi) Common area maintenance ("CAM") services

Killam has an obligation to commercial tenants to provide CAM services in exchange for CAM recoveries, which are considered non-lease components. CAM services are performed during the period in which the tenants occupy the premises, therefore CAM recoveries are recognized in revenue based on actual costs incurred.

# Notes to the Consolidated Financial Statements

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

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## 2. Significant Accounting Policies (continued)

### (vii) Lease cancellation fees

Amounts payable by tenants to terminate a lease prior to the contractual expiry date are included in rental revenue as lease cancellation fees at the effective date of the lease termination.

### (F) Tenant Inducements

Incentives such as cash, rent-free periods and move-in allowances may be provided to lessees to enter into a lease. These incentives are amortized on a straight-line basis over the term of the lease as a reduction of rental revenue.

### (G) Investment Properties

Investment properties include multi-family residential properties, MHC's and commercial properties held to earn rental income and properties that are under construction or development for future use as investment properties and land held for future development. Killam considers its income properties to be investment properties under IAS 40, *Investment Property* ("IAS 40"), and has chosen the fair value model to account for its investment properties in the consolidated financial statements. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's length transaction at the date of valuation.

Killam's investment properties have been valued on a highest and best use basis and do not include any portfolio premium that may be associated with the economies of scale from owning a large portfolio or the consolidation of value from having compiled a large portfolio of properties over a long period of time, mostly through individual property acquisitions.

Investment properties are measured initially at cost, including transaction costs. Transaction costs include deed transfer taxes and various professional fees. Subsequent to initial recognition, investment properties are recorded at fair value. Fair value is determined based on a combination of internal and external processes and valuation techniques. Gains and losses arising from changes in fair values are included in the consolidated statements of income and comprehensive income in the year in which they arise. Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected. Any gains or losses on the retirement or disposal of investment properties are recognized in the consolidated statements of income and comprehensive income in the year of retirement or disposal.

Properties under development are also adjusted for fair value at each consolidated statement of financial position, with fair value adjustments recognized in net income.

### (i) Investment properties under construction ("IPUC")

Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to prepare the properties for their intended use as income properties.

The cost of a development property that is an asset acquisition comprises the amount of cash, or the fair value of other consideration, paid to acquire the property, including transaction costs. Subsequent to acquisition, the cost of a development property includes costs that are directly attributable to these assets, including development costs, property taxes, directly attributable labour costs and borrowing costs on both specific and general debt. Direct and indirect borrowing costs, development costs and property taxes are capitalized when the activities necessary to prepare an asset for development or redevelopment begin, and continue until the date that construction is substantially complete and all necessary occupancy and related permits have been received, whether or not the space is leased. If Killam is required as a condition of a lease to construct tenant improvements that enhance the value of the property, then capitalization of these costs continues until such improvements are completed. Capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted.

Interest is capitalized using Killam's weighted average cost of borrowing after adjusting for borrowing associated with specific developments. Where borrowing is associated with specific developments, the amount capitalized is the gross interest incurred on such borrowing less any investment income arising on temporary investment of such borrowing.

# Notes to the Consolidated Financial Statements

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

## 2. Significant Accounting Policies (continued)

### (H) Assets Held for Sale

Assets held for sale include assets that meet the held for sale criteria in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. These assets have carrying amounts that will be recovered principally through a sale and are available for immediate sale in their present condition. Assets that are classified as assets held for sale are carried at the lower of fair value and cost.

### (I) Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and consist mainly of Killam's head office buildings, leasehold improvements, vehicles and information technology systems. The estimated useful lives, residual values and depreciation methods are reviewed at each year-end, with the effect of any changes in estimates accounted for prospectively. These items are categorized into the following classes, and their respective useful economic life is used to calculate the amount of depreciation for each period.

<u>Category</u>	<u>Useful Life/Depreciation Rate</u>	<u>Depreciation Method Used</u>
Building	40 years	Straight-line
Heavy equipment	8%	Declining balance
Vehicles	10%	Declining balance
Furniture, fixtures and office equipment	10% to 30%	Declining balance
Leasehold improvements	Lease term	Straight-line

### (J) Inventory

Inventory represents manufactured homes available for sale. The manufactured homes are valued at the lower of cost (purchase price plus delivery and setup 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.

### (K) Consolidated Statements of Cash Flows

Cash consists of cash on hand and bank account balances excluding cash on hand held for security deposits. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the consolidated statements of cash flows and are disclosed separately in the notes to the consolidated financial statements.

### (L) Deferred unit-based Compensation

Unit-based compensation benefits are provided to officers, Trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and provide additional incentives by increasing the participants' interest, as owners, in Killam. In accordance with IAS 32, *Financial Instruments: Presentation* ("IAS 32"), the Restricted Trust Units ("RTUs") are presented as a liability on the consolidated statements of financial position as the Trust Units are considered puttable instruments in accordance with IAS 32.

The fair value of performance-based RTUs is estimated using a Monte Carlo pricing model. The fair value estimate requires determination of the most appropriate inputs to the pricing model including the expected life, volatility, and dividend yield. The grant date fair value of the deferred unit-based compensation is determined based on the market value of the Trust's Units on the date of grant and compensation expense is recognized over the vesting period and included in administration costs. Under IAS 19, *Employee Benefits*, the RTUs are classified at fair value through profit or loss ("FVTPL") and are measured at each reporting period at fair value, with changes in fair value recognized in the consolidated statements of income and comprehensive income.

# Notes to the Consolidated Financial Statements

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

## 2. Significant Accounting Policies (continued)

### (M) Financial Instruments

Financial instruments are accounted for, presented, and disclosed in accordance with IFRS 7, Financial Instruments: Disclosures, IAS 32, and IFRS 9, *Financial Instruments ("IFRS 9")*. Killam recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified at FVTPL, are measured at fair value plus transaction costs on initial recognition. Financial assets classified at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. The following summarizes Killam's classification and measurement of financial assets and liabilities:

Type	Classification	Measurement
Rent, loans and other receivables	Financial assets	Amortized cost
Accounts payable, accrued liabilities	Financial liabilities	Amortized cost
Mortgages, loans payable and construction loans	Financial liabilities	Amortized cost
Exchangeable Units	FVTPL	Fair value
Deferred unit-based compensation	FVTPL	Fair value
Other assets	FVTPL	Fair value

#### Financial liabilities at FVTPL

The Exchangeable Units of the Trust are exchangeable into units of the Trust at the option of the holder. These Exchangeable Units are considered puttable instruments in accordance with IAS 32 and are required to be classified as financial liabilities at FVTPL. The distributions paid on the Exchangeable Units are accounted for as financing costs.

Financial liabilities are classified as FVTPL if they meet certain conditions and are designated as such by Management, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income and comprehensive income.

#### Financial assets

Such receivables arise when Killam provides services to a third party, such as a tenant, and are included in other current assets, except for those with maturities more than 12 months after the consolidated statement of financial position date, which are classified as other non-current assets. Loans and receivables are accounted for at amortized cost.

#### Financial liabilities

Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount of the initial recognition.

#### Trust Units

Killam's Trust Units are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case the puttable instruments may be presented as equity. Killam's Trust Units meet the conditions of IAS 32 as they are the most subordinate to all other classes of instruments and are, therefore, presented as equity on the consolidated statements of financial position.

# Notes to the Consolidated Financial Statements

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

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## 2. Significant Accounting Policies (continued)

### Exchangeable Units

The Exchangeable Units are considered a financial liability as there is a contractual obligation for the Trust to deliver Trust Units upon exchange of the Exchangeable Units. The distributions on the Exchangeable Units are recognized as financing costs in the consolidated statements of income and comprehensive income. The distributions payable as at the reporting date are reported under other current liabilities on the consolidated statements of financial position. The Exchangeable Units are measured at each reporting date at fair value, which is based off of the unit price of the Trust given the Exchangeable Units can be converted into Trust units. Changes in fair value are recognized in the consolidated statements of income and comprehensive income.

### Mortgages and loans payable

Mortgages and loans payable are initially recognized at fair value less directly attributable transaction costs. After initial recognition, mortgages and loans payable are subsequently measured at amortized cost using the effective interest rate method. Mortgage maturities and repayments due more than 12 months after the consolidated statement of financial position date are classified as non-current.

### Financing costs

Financing fees and other costs incurred in connection with debt financing are deducted from the cost of the debt and amortized using the effective interest rate method. Upon refinancing, any financing costs associated with previous mortgages are written off to income. 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 effective interest rate calculation.

### Prepaid insurance premiums

Canada Mortgage and Housing Corporation ("CMHC") insurance premiums are netted against mortgages and loans payable. They are amortized over the amortization period of the underlying mortgage loans on a straight-line basis (initial period is typically 25-30 years) and are included as a component of financing costs. Should Killam refinance an existing mortgage, CMHC premiums associated with the new mortgage will be reflected in deferred financing costs. Other unamortized CMHC premiums and fees associated with the property that are no longer linked to a current mortgage will be amortized in the period in which the refinancing occurs.

### Transaction costs

Transaction costs related to loans and receivables and other liabilities, measured at amortized cost, are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest rate method.

### Determination of fair value

The fair value of a financial instrument on initial recognition is generally the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments is remeasured based on relevant market data. Killam classifies the fair value for each class of financial instrument based on the fair value hierarchy. The fair value hierarchy distinguishes between market value data obtained from independent sources and Killam's own assumptions about market value. See note 26 for a detailed discussion of valuation methods used for financial instruments quoted in an active market and instruments valued using observable data.

### Derivatives

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. For Killam's accounting policy on hedging, see the Hedging Relationships section below. Derivatives not designated in a hedging relationship are measured at fair value, with changes therein recognized directly through the consolidated statements of income and comprehensive income.

### Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free-standing derivative; and the combined instrument or contract is not measured at fair value. These embedded derivatives are measured at fair value, with changes therein recognized within net income in the consolidated statements of income and comprehensive income.

# Notes to the Consolidated Financial Statements

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

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## 2. Significant Accounting Policies (continued)

### (N) Hedging Relationships

Killam may use interest rate swaps to hedge its risks associated with interest rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. 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, Killam formally designates and documents the hedge relationship to which it 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 Killam 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 fair value or 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.

### Cash flow hedges

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 either attributable to a particular risk associated with a recognized 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 through other comprehensive income, while any ineffective portion is recognized immediately in the consolidated statements of income and comprehensive income. 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 recognized.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the consolidated statements of income and comprehensive income. 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 recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

### (O) Comprehensive Income

Comprehensive income includes net income and other comprehensive income. Other comprehensive income includes the effective portion of cash flow hedges less any amounts reclassified to interest and other financing costs and the associated income taxes.

### (P) Accumulated Other Comprehensive Loss

AOCL is included in the consolidated statements of financial position as equity and includes the unrealized gains and losses of the changes in the fair value of cash flow hedges.

### (Q) Distributions

Distributions represent the monthly cash distributions on outstanding Trust Units and Exchangeable Units.

### (R) Provisions

In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), a provision is a liability of uncertain timing or amount. Provisions are recognized when the entity has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the date of the consolidated statements of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, where the time value of money is material. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Provisions reflect Killam's best estimate at the reporting date. Killam's provisions are immaterial and are included in accounts payable and accrued liabilities.

# Notes to the Consolidated Financial Statements

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

## 2. Significant Accounting Policies (continued)

### (S) Taxation

Effective January 1, 2016, Killam qualified as a "mutual fund trust" as defined under the *Income Tax Act* (Canada) and as a REIT eligible for the "REIT Exemption" in accordance with the rules affecting the tax treatment of publicly traded trusts. Accordingly, the Trust is not taxable on its income provided that all of its taxable income is distributed to its unitholders. This exemption, however, does not extend to the corporate subsidiaries of Killam that are subject to income taxes.

#### (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 tax laws enacted or substantively enacted at the reporting 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 reporting 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.

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 values of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Killam determines the deferred tax consequences associated with temporary differences relating to investment properties as if the carrying amount of the investment property is recovered entirely through sale. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

### (T) Earnings Per Unit

As a result of the redemption feature of Killam's Trust Units, these Units are considered financial liabilities under IAS 33, *Earnings per Share*, and they may not be considered as equity for the purposes of calculating net income on a per Unit basis. Consequently, Killam did not report earnings per Unit calculations, as permitted under IFRS.

### (U) Adoption of Accounting Standards

#### (i) IFRS 16, *Leases*

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

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

As part of the adoption of this standard, Killam reviewed all lease contracts in which it is a lessee and concluded that all leases, with the exception of three ground leases, were assets of low value and therefore had no impact upon adoption. The implementation of IFRS 16 resulted in a right-of-use asset and lease liability being recorded in the amount of \$7.1 million (current balance sheet amount is \$8.9 million). Refer to Note 12 to the consolidated financial statements for additional information.

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

# Notes to the Consolidated Financial Statements

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

## 2. Significant Accounting Policies (continued)

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

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

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatment* ("IFRIC 23")

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

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

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

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

## 3. Critical Accounting Judgments, Estimates and Assumptions

### Critical Judgments in Applying Accounting Policies

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

#### (i) Income taxes

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

#### (ii) Investment property and internal capital program

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

# Notes to the Consolidated Financial Statements

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

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## 3. Critical Accounting Judgments, Estimates and Assumptions (continued)

### (iii) Financial instruments

The Trust's accounting policies relating to financial instruments are described in note 2(M). Critical judgments inherent in these policies related to applying the criteria set out in IFRS 9 and IAS 32 to determine the appropriate recognition model, i.e. FVTPL, etc., assess the effectiveness of hedging relationships and determine the identification of embedded derivatives, if any, that are subject to fair value measurement.

### (iv) Basis of consolidation

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

### (v) Revenue Recognition

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

### *Key Accounting Estimates and Assumptions*

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

### (i) Valuation of investment properties

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

IPUC and land held for development are also valued at fair value, except if such values cannot be reliably determined. In the case when fair value cannot be reliably determined, such property is recorded at cost.

### (ii) Deferred unit-based compensation

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

### (iii) Deferred taxes

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

# Notes to the Consolidated Financial Statements

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

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## 4. Future Accounting Policy Changes

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

### **Amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material**

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

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

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

### **Amendments to IAS 1, Presentation of Financial Statements, Amendments to classification of liabilities as current or non-current**

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

The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Earlier application is permitted. Killam is in the process of assessing the impact the amendments may have on future financial statements and plans to adopt the new standard retrospectively on the required effective date.

## Notes to the Consolidated Financial Statements

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

### 5. Investment Properties

As at December 31, 2019

Segment	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
<b>Balance, January 1, 2019</b>	<b>\$2,425,158</b>	<b>\$153,509</b>	<b>\$122,835</b>	<b>\$37,163</b>	<b>\$61,028</b>	<b>\$2,799,693</b>
Impact of change in accounting policy <sup>(1)</sup>	7,115	—	—	—	—	7,115
<b>Restated balance, beginning of year</b>	<b>2,432,273</b>	<b>153,509</b>	<b>122,835</b>	<b>37,163</b>	<b>61,028</b>	<b>2,806,808</b>
Fair value adjustment on investment properties	208,624	38,540	(1,549)	774	(1,663)	244,726
Acquisitions	149,654	3,985	32,124	—	6,200	191,963
Transfer from IPUC	36,215	—	—	(36,215)	—	—
Capital expenditures	62,317	5,016	4,162	29,341	5,700	106,536
Transfer from land for development	—	—	—	15,050	(15,050)	—
Transfer to held for sale	(15,099)	—	—	—	(18,401)	(33,500)
Impact of change in right-of-use asset	423	1,381	—	—	—	1,804
Interest capitalized on IPUC and land for development	—	—	—	754	1,513	2,267
<b>Balance, end of year</b>	<b>\$2,874,407</b>	<b>\$202,431</b>	<b>\$157,572</b>	<b>\$46,867</b>	<b>\$39,327</b>	<b>\$3,320,604</b>

As at December 31, 2018

Segment	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
Balance, beginning of year	\$1,995,144	\$139,783	\$36,445	\$80,226	\$28,165	\$2,279,763
Fair value adjustment on investment properties	118,601	5,271	7,301	4,919	1,800	137,892
Acquisitions	167,218	4,789	76,179	—	28,347	276,533
Dispositions	—	—	—	—	(1,460)	(1,460)
Transfer from IPUC	104,283	—	—	(104,283)	—	—
Transfer from land for development	—	—	—	1,273	(1,273)	—
Capital expenditures	39,912	3,666	2,910	53,336	3,972	103,796
Interest capitalized on IPUC and land for development	—	—	—	1,692	1,477	3,169
<b>Balance, end of year</b>	<b>\$2,425,158</b>	<b>\$153,509</b>	<b>\$122,835</b>	<b>\$37,163</b>	<b>\$61,028</b>	<b>\$2,799,693</b>

<sup>(1)</sup> Refer to note 12- Lease Liabilities

## Notes to the Consolidated Financial Statements

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

### 5. Investment Properties (continued)

During the year ended December 31, 2019, Killam acquired the following properties:

Property	Location	Acquisition Date	Ownership Interest	Property Type	Purchase Price <sup>(1)</sup>	
					Income-producing Properties	Land for Development
9 Dietz	Waterloo, ON	15-Jan-19	100%	Development land	\$—	\$1,500
11 Harold Doherty	Fredericton, NB	18-Apr-19	100%	Apartment	8,100	—
Charlottetown Mall	Charlottetown, PE	17-May-19	50%	Retail	23,750	—
Grid 5 <sup>(2)</sup>	Calgary, AB	14-Jun-19	100%	Apartment	42,700	—
Silver Spear <sup>(2)</sup>	Mississauga, ON	14-Jun-19	100%	Apartment & development land	27,200	3,600
59 Irvin	Kitchener, ON	21-Jun-19	100%	Development land	—	150
Dieppe Village <sup>(3)</sup>	Moncton, NB	27-Jun-19	100%	Apartment & retail	28,000	900
150 Lian	Fredericton, NB	20-Aug-19	100%	Apartment	9,250	—
690 University Ave	Charlottetown, PE	15-Oct-19	50%	Retail	1,150	—
Oceanic	Shediac, NB	1-Nov-19	100%	Seasonal campground	3,800	—
125 & 145 Canaan	Moncton, NB	22-Nov-19	100%	Apartment	9,520	—
The Link	Edmonton, AB	25-Nov-19	100%	Apartment	31,500	—
Total Acquisitions					184,970	6,150

<sup>(1)</sup> Purchase price does not include transaction costs.

<sup>(2)</sup> Killam acquired a 50% interest in each property and now holds 100% ownership.

<sup>(3)</sup> Dieppe Village includes 127 apartment units (\$21.4M) and 45,500 square feet of commercial space (\$6.6M).

During the year ended December 31, 2019, Killam capitalized salaries of \$3.8 million (December 31, 2018 - \$3.1 million), as part of its project improvement, suite renovation and development programs. For the year ended December 31, 2019, interest costs associated with the general corporate borrowings used to fund development were capitalized to the respective development projects using Killam's weighted average borrowing rate of 2.94% (December 31, 2018 - 2.91%). Interest costs associated with development specific loans were capitalized to the respective developments using the actual borrowing rate associated with the loan.

Investment properties with a fair value of \$3.1 billion as at December 31, 2019 (December 31, 2018 - \$2.8 billion) have been pledged as collateral against Killam's mortgages, construction loans and credit facilities.

#### Valuation methodology

##### Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Expectations about future improvements or modifications to be made to the investment property to reflect its highest and best use may be considered in the valuation.

Investment properties carried at fair value are categorized by level according to the significance of the inputs used in making the measurements. As the fair value of investment properties is determined with significant unobservable inputs, all investment properties are classified as Level 3 assets. See note 26 for further details.

# Notes to the Consolidated Financial Statements

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

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## 5. Investment Properties (continued)

Killam's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers in or out of Level 3 fair value measurements for investment properties during the year.

### Valuation processes

#### Internal valuations

Killam measures the vast majority of its investment properties using valuations prepared by its internal valuation team. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations and report directly to a senior member of Killam's management. The internal valuation team's processes and results are reviewed and approved by senior management of Killam, including the President & Chief Executive Officer; Chief Financial Officer; and other executive members, in line with Killam's quarterly reporting dates.

#### External valuations

Depending on the property asset type and location, management may at times use external valuations to support its fair value, obtaining valuations from independent third-party firms that employ experienced valuation professionals. During the year, Killam obtained a total of 22 external property appraisals, which supported an IFRS fair value of approximately \$379.6 million or 12% of Killam's investment property portfolio as at December 31, 2019. The internal valuation team also verifies all major inputs used by the external valuator in preparing the valuation report, compares the fair value against the fair value determined in internal models, and holds discussions with the external valuator.

### Valuation techniques underlying Management's estimation of fair value

#### Income properties

The apartment and MHC investment properties were valued using the direct income capitalization method. In applying the direct income capitalization method, the stabilized net operating income ("SNOI") of each property is divided by a capitalization rate. The significant unobservable inputs include the following:

- SNOI is based on budgeted rents and expenses and supported by the terms of any existing leases, other contracts or external evidence such as current market rents for similar properties. Budgeted rents and expenses are adjusted to incorporate allowances for vacancy rates, management fees, expected post sale property taxes and market-based maintenance and salary costs. The resulting capitalized value is then adjusted for other costs inherent in achieving and maintaining SNOI, including structural reserves for capital expenditures.
- Capitalization rate is based on location, size and quality of the properties and takes into account market data at the valuation date.

#### IPUC and land for development

Management uses an internal valuation process to estimate the fair value of properties under development and land for development. Where a site is partially developed, the direct capitalization method is applied to capitalize the pro forma NOI, stabilized with market allowances, from which the costs to complete the development are deducted. The significant unobservable inputs are based on the following:

- Pro forma SNOI is based on the location, type and quality of the properties and supported by the terms of actual or anticipated future leases, other contracts or external evidence such as current market rents for similar properties. Vacancy rates are based on expected future market conditions, and estimated maintenance costs are based on management's experience and knowledge of the market conditions.
- Costs to complete are derived from internal budgets based on management's experience and knowledge of the market conditions.
- Capitalization rate is risk-adjusted taking into consideration the inherent risk of the development project based on location, size and quality of the properties and taking into account market data at the valuation date.

## Notes to the Consolidated Financial Statements

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

### 5. Investment Properties (continued)

The primary method of valuation for land acquired for development is the comparable sales approach, which considers recent sales activity for similar land parcels in the same or similar markets. Land values are estimated using either a per acre or per buildable square foot basis based on highest and best use. Such values are applied to Killam's properties after adjusting for factors specific to the site, including its location, intended use, zoning, servicing and configuration.

#### Valuation Basis

Using the direct income capitalization method, the apartment properties were valued using cap-rates in the range of 3.5% to 8.00%, applied to a SNOI of \$137.0 million (December 31, 2018 - 3.75% to 8.00% and \$126.0 million), resulting in an overall weighted average cap-rate of 4.76% (December 31, 2018 - 5.15%). The stabilized occupancy rates used in the calculation of SNOI were in the range of 93.5% to 99.0% (December 31, 2018 - 94.0% to 99.0%).

Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.0% to 6.5%, applied to a SNOI of \$10.0 million (December 31, 2018 - 5.75% to 8.00% and \$10.0 million), resulting in an overall weighted average cap-rate of 5.65% (December 31, 2018 - 6.76%). The stabilized occupancy rate used in the calculation of SNOI was 97.8% (December 31, 2018 - 97.8%).

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 by region:

	December 31, 2019			December 31, 2018		
	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
<b>Apartments</b>	<b>3.50%</b>	<b>8.00%</b>	<b>4.76%</b>	3.75%	8.00%	5.15%
Halifax	3.75%	5.60%	4.49%	4.50%	6.00%	5.22%
Moncton	4.99%	7.00%	5.54%	5.15%	7.00%	5.73%
Fredericton	5.00%	6.00%	5.72%	5.00%	6.00%	5.73%
Saint John	5.75%	6.25%	6.04%	5.75%	6.25%	6.04%
St. John's	5.00%	6.00%	5.63%	5.00%	6.00%	5.62%
Charlottetown	5.28%	6.00%	5.77%	5.28%	6.00%	5.74%
Ontario	3.50%	5.08%	4.06%	3.75%	5.08%	4.33%
Alberta	4.47%	5.00%	4.69%	4.50%	5.00%	4.72%
Other Atlantic	5.75%	8.00%	6.65%	5.75%	8.00%	6.67%
<b>MHCs</b>	<b>5.00%</b>	<b>6.50%</b>	<b>5.65%</b>	5.75%	8.00%	6.76%
Ontario	5.00%	6.50%	5.96%	6.50%	8.00%	7.35%
Nova Scotia	5.00%	6.00%	5.30%	5.75%	7.00%	6.21%
New Brunswick	5.80%	6.50%	6.06%	7.50%	7.50%	7.50%
Newfoundland	6.00%	6.00%	6.00%	7.00%	7.00%	7.00%

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

Class of property	Capitalization rate	
	10 basis points ("bps") increase	10 basis points ("bps") decrease
Apartments	(\$59,153)	\$61,692
MHCs	(\$3,445)	\$3,569

## Notes to the Consolidated Financial Statements

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

### 6. Assets Held for Sale

Killam determined that a parcel of land for development located in Calgary, AB, met the criteria for classification as assets held for sale as at December 31, 2019. The property has a carrying value of \$14.2 million (Killam's 40% interest).

### 7. Joint Operations and Investments in Joint Ventures

Killam has interests in three properties (seven buildings), two development projects and land for future development that are subject to joint control and are joint operations. Accordingly, the consolidated statements of financial position and consolidated statements of income and comprehensive income include Killam's rights to and obligations for the related assets, liabilities, revenue and expenses. As at December 31, 2019, the fair value of the investment properties subject to joint control was \$261.2 million (December 31, 2018 - \$286.8 million).

### 8. Property and Equipment

As at	December 31, 2019		December 31, 2018	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$270	\$—	\$270	\$—
Building	2,119	480	1,922	383
Heavy equipment	342	138	276	124
Vehicles	2,540	931	2,156	784
Furniture, fixtures and office equipment	6,594	5,504	6,320	5,204
Leasehold improvements	2,818	517	1,613	403
	14,683	7,570	12,557	6,898
Less accumulated depreciation	(7,570)		(6,898)	
	\$7,113		\$5,659	

### 9. Other Current Assets

As at	December 31, 2019	December 31, 2018
Restricted cash	\$6,594	\$6,828
Deposits	4,433	577
Prepaid expenses	5,060	4,029
Inventory	12	276
	\$16,099	\$11,710

Restricted cash consists of security deposits and property tax reserves. Deposits consist of funds held in trust for future acquisitions. Inventory relates to manufactured homes for which sales have not closed at year end.

## Notes to the Consolidated Financial Statements

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

### 10. Rent and Other Receivables

As at	December 31, 2019	December 31, 2018
Rent receivable	\$1,311	\$996
Other receivables	7,714	2,029
	<b>\$9,025</b>	<b>\$3,025</b>

Included in other receivables are laundry revenue, insurance receivables and other non-rental income. The majority of these receivables are less than 60 days old. Killam'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. Killam's bad debt expense experience has historically been less than 0.3% of revenue. As a result of the low bad debt experience, no allowance for doubtful accounts is recorded in the accounts.

### 11. Mortgages and Loans Payable

As at	December 31, 2019		December 31, 2018	
	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	2.90%	\$1,427,470	2.95%	\$1,275,990
Variable rate	4.63%	10,800	5.42%	16,486
<b>Total</b>		<b>\$1,438,270</b>		<b>\$1,292,476</b>
Current		276,568		232,394
Non-current		1,161,702		1,060,082
		<b>\$1,438,270</b>		<b>\$1,292,476</b>

Mortgages are collateralized by a first charge on the properties of Killam.

As at December 31, 2019, unamortized deferred financing costs of \$32.2 million (December 31, 2018 - \$30.1 million) and mark-to-market adjustments on mortgages assumed on acquisitions of \$0.01 million (December 31, 2018 - \$0.4 million) are netted against mortgages and loans payable.

Estimated future principal payments and maturities required to meet mortgage obligations by the 12 month period ending December 31 are as follows:

	Principal Amount	% of Total Principal
2020	\$276,568	18.8%
2021	173,589	11.8%
2022	149,355	10.2%
2023	212,901	14.5%
2024	238,491	16.2%
Subsequent to 2024	419,529	28.5%
	\$1,470,433	100.0%
Unamortized deferred financing costs	(\$32,170)	
Unamortized mark-to-market adjustments	\$7	
	<b>\$1,438,270</b>	

# Notes to the Consolidated Financial Statements

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

## 12. Lease Liabilities

In accordance with the adoption of IFRS 16, right-of-use assets and lease liabilities of \$7.1 million were recognized as at January 1, 2019. The lease liabilities were discounted at the incremental borrowing rate as at January 1, 2019. The weighted average discount rate was 4.04%. Killam transitioned to IFRS 16 in accordance with the modified retrospective approach, and as such prior year figures were not adjusted. On November 1, 2019, Killam acquired a property with an existing land lease in place. Killam recognized an addition to the right-of-use assets and lease liabilities of \$1.7 million during the year. The addition was discounted at the incremental borrowing rate as at November 1, 2019.

As at December 31, 2019, the right-of-use assets and lease liabilities are \$8.9 million. The right-of-use assets are classified as part of investment properties and the lease liabilities are classified in lease liabilities on the consolidated statement of financial position. The total lease payments for the year ended December 31, 2019, were \$0.1 million.

Gross lease liabilities at January 1, 2019	<b>\$18,374</b>
Discounting	<b>(11,259)</b>
Lease liabilities at January 1, 2019	<b>7,115</b>
Additions	<b>1,677</b>
Net change in existing lease liabilities	<b>127</b>
<b>Lease liabilities as at December 31, 2019</b>	<b>\$8,919</b>

## 13. Credit Facilities

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

The \$70.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). The facility includes a \$30.0 million demand revolver and a \$40.0 million committed revolver as well as an accordion option to increase the \$70.0 million facility by an additional \$20.0 million. Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at December 31, 2019, Killam had assets with a carrying value of \$84.1 million pledged as first mortgage ranking and \$353.2 million pledged as second mortgage ranking to the line. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2019.

The \$5.0 million facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at December 31, 2019, Killam had assets with a carrying value of \$2.2 million pledged as collateral (December 31, 2018 - \$2.1 million). The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2019.

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

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

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

## Notes to the Consolidated Financial Statements

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

### 14. Construction Loans

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

As at December 31, 2019, \$24.9 million was drawn on the two construction loans (December 31, 2018 - \$60.5 million). The weighted-average interest rate is 3.32% (December 31, 2018 - 4.28%).

### 15. Accounts Payable and Accrued Liabilities

As at	December 31, 2019	December 31, 2018
Accounts payable and other accrued liabilities	\$28,960	\$27,991
Distributions payable <sup>(1)</sup>	5,668	4,627
Mortgage interest payable	3,202	2,852
Security deposits	8,784	8,188
	<b>\$46,614</b>	<b>\$43,658</b>

<sup>(1)</sup> Includes distributions on exchangeable units.

### 16. Exchangeable Units

	2019		2018	
	Number of Exchangeable Units	Value	Number of Exchangeable Units	Value
Balance, beginning of year	4,153,520	\$66,207	3,863,336	54,937
Issuance of units for acquisitions	—	—	360,434	5,951
Exchangeable Units exchanged	—	—	(70,250)	(1,054)
Fair value adjustment	—	12,461	—	6,373
<b>Balance, end of year</b>	<b>4,153,520</b>	<b>\$78,668</b>	<b>4,153,520</b>	<b>\$66,207</b>

The Exchangeable Units are non-transferable, but are exchangeable, on a one-for-one basis, into Killam Trust Units at any time at the option of the holder. Prior to such exchange, distributions will be made on these Exchangeable Units in an amount equivalent to the distributions that would have been made had the Units been exchanged for Killam Trust Units.

### 17. Unitholders' Equity

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

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

# Notes to the Consolidated Financial Statements

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

## 17. Unitholders' Equity (continued)

Unitholders have the right to redeem their Units at the lesser of (i) 90% of the market price of the Trust Unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of \$50 thousand for all redemptions in a calendar month, or a note payable. For the year ended December 31, 2019, no unitholders redeemed Units.

The Units issued and outstanding are as follows:

	Number of Trust Units	Value
Balance, December 31, 2018	86,058,671	\$798,473
Distribution reinvestment plan	931,832	17,651
Restricted Trust Units redeemed	74,241	1,298
Units issued for cash	10,798,500	191,744
<b>Balance, December 31, 2019</b>	<b>97,863,244</b>	<b>\$1,009,166</b>

### Units issued for cash

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
Bought-deal (March 6, 2019)	\$17.10	\$75,069	\$3,356	\$71,713	4,390,000
Over-allotment (March 6, 2019)	\$17.10	11,260	503	10,757	658,500
Bought-deal (November 4, 2019)	\$19.90	100,495	4,524	95,971	5,050,000
Over-allotment (November 14, 2019)	\$19.90	13,930	627	13,303	700,000
Total		\$200,754	\$9,010	\$191,744	10,798,500

### Distribution Reinvestment Plan ("DRIP")

Killam's DRIP allows unitholders to acquire additional Units of the Trust through the reinvestment of distributions on their Units. Unitholders who participate in the DRIP receive additional Units equal to 3% of the Units reinvested. Units issued with the DRIP are issued directly from the Trust at a price based on the 10-day volume weighted average closing price of the Toronto Stock Exchange ("TSX") preceding the relevant distribution date, which typically is on or about the 15<sup>th</sup> day of the month following the distribution declaration.

## 18. Distributions

Killam paid distributions to its unitholders during 2019 in accordance with its DOT. Distributions declared by the Board of Trustees were paid monthly, on or about the 15<sup>th</sup> day of each month.

For the year ended December 31, 2019, the distributions declared related to the Trust Units were \$60.8 million (year ended December 31, 2018 - \$53.6 million). For the year ended December 31, 2019, distributions declared related to the Exchangeable Units were \$2.7 million (year ended December 31, 2018 - \$2.5 million). The distributions on the Exchangeable Units are recorded in financing costs.

# Notes to the Consolidated Financial Statements

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

## 19. Deferred Unit-based Compensation

Restricted Trust Units ("RTUs") are awarded to members of the senior executive team and director-level employees as a percentage of their compensation. The Trust also grants RTUs subject to performance conditions under the RTU Plan for certain senior executives. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs.

The number of RTUs awarded are based on the volume weighted average price of all Trust Units traded on the TSX for the five trading days immediately preceding the date on which the compensation is awarded. The RTUs earn distributions based on the same distributions paid on the Trust Units, and such distributions translate into additional RTUs. The initial RTUs, and RTUs acquired through distribution reinvestment, are credited to each person's account and are not issued to the employee or Board member until they redeem such RTUs. For employees, the RTUs will be redeemed and paid out in Trust Units by December 31 of the year in which the RTUs have vested. Effective Q3-2017, RTUs issued to Trustees will be redeemed and paid, in the issuance of Trust Units, upon retirement from the Board.

The RTUs subject to performance conditions will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period. Killam accounts for the RTUs subject to performance conditions under the fair value method of accounting, and uses the Monte-Carlo simulation pricing model to determine the fair value, which allows for the incorporation of the market-based performance hurdles that must be met before the RTUs subject to performance conditions vest.

The RTUs are considered a financial liability because there is a contractual obligation for the Trust to deliver Trust Units (which are accounted for as liabilities, but presented as equity instruments under IAS 32) upon conversion of the RTUs. The RTUs are measured at fair value with changes flowing through the consolidated statements of income and comprehensive income. The fair value of the vested RTUs as at December 31, 2019, is \$5.4 million, which includes \$1.4 million related to RTUs subject to performance conditions (December 31, 2018 - \$5.4 million and \$0.5 million). For the year ended December 31, 2019, compensation expense of \$1.9 million (year ended December 31, 2018 - \$1.5 million) has been recognized in respect of the RTUs.

The details of the RTUs issued are shown below:

For the years ended December 31,	2019		2018	
	Number of RTUs	Weighted Average Issue Price	Number of RTUs	Weighted Average Issue Price
Outstanding, beginning of year	403,730	\$13.12	432,688	\$12.09
Granted	98,928	17.44	127,452	13.18
Redeemed	(151,222)	12.64	(174,467)	10.81
Forfeited	(1,529)	12.83	(2,380)	12.83
Additional Restricted Trust Unit distributions	14,968	18.88	20,437	14.91
<b>Outstanding, end of year</b>	<b>364,875</b>	<b>\$14.73</b>	<b>403,730</b>	<b>\$13.12</b>

## Notes to the Consolidated Financial Statements

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

### 20. Revenue

In accordance with IFRS 15, Management has evaluated the lease and non-lease components of its revenue and has determined the following allocation:

	For the years ended December 31,	
	2019	2018
Rental revenue	\$174,059	\$155,491
Property expense recoveries	58,020	51,830
Ancillary revenue	9,670	8,638
	<b>\$241,749</b>	<b>\$215,959</b>

### 21. Other Income

	For the years ended December 31,	
	2019	2018
Insurance claim recovery	\$4,966	\$—
Management fee revenue	756	651
Interest revenue	175	309
Home sale revenue	105	5
	<b>\$6,002</b>	<b>\$965</b>

Insurance claim recovery represents proceeds realized on an insurance settlement from Killam's insurance providers relating to one building, consisting of 29 apartment units located in Charlottetown, PEI, that was lost by fire earlier in 2019. Killam is currently in the process of redeveloping a 38 unit property at the site.

### 22. Financing Costs

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

## Notes to the Consolidated Financial Statements

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

### 23. Deferred Income Tax

Trusts that satisfy the REIT Exemption are excluded from the specified investment flow-through ("SIFT") definition and therefore will not be subject to taxation under the SIFT Rules. Effective December 31, 2018, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at December 31, 2019, and is therefore not subject to taxation to the extent that income is distributed to unitholders. However, this exemption does not extend to the corporate subsidiaries of Killam that are taxable legal entities. For the year ended December 31, 2019, the deferred tax expense relates to the corporate subsidiary entity of the REIT.

As at December 31,	2018	Recognized in consolidated statement of income and comprehensive income	2019
Deferred tax liabilities (assets) related to:			
Real estate properties	\$134,662	\$45,893	<b>\$180,555</b>
Loss carryforwards	(6,412)	(6,407)	<b>(12,819)</b>
Unrealized capital gains	3,363	513	<b>3,876</b>
Other	3,071	365	<b>3,436</b>
Net deferred tax liabilities	\$134,684	\$40,364	<b>\$175,048</b>

As at December 31,	2017	Recognized in consolidated statement of income and comprehensive income	2018
Deferred tax liabilities (assets) related to:			
Real estate properties	\$101,736	\$32,926	\$134,662
Loss carryforwards	(3,187)	(3,225)	(6,412)
Unrealized capital gains	2,419	944	3,363
Other	2,238	833	3,071
Net deferred tax liabilities	\$103,206	\$31,478	\$134,684

The deferred tax expense for the year can be reconciled to the accounting profit as follows:

For the years ended December 31,	2019	2018
Income before income taxes	<b>\$324,161</b>	\$206,649
Statutory tax rate	<b>29.5%</b>	29.6%
Income tax expense at statutory rates	<b>95,692</b>	61,147
Amounts not subject to tax	<b>(93,292)</b>	(58,730)
Income taxed at a lower amount	<b>(3,876)</b>	(3,478)
Effect of provincial tax rate changes	<b>(1,047)</b>	(17)
Other	<b>(68)</b>	(624)
Change to tax basis in excess of book basis	<b>43,227</b>	33,180
Total tax expense	<b>\$40,636</b>	\$31,478

## Notes to the Consolidated Financial Statements

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

### 24. Segmented Information

For investment properties, discrete financial information is provided on a property-by-property basis to members of executive management, which collectively comprise the chief operating decision maker ("CODM"). The individual properties are aggregated into segments with similar economic characteristics such as the nature of the property, vacancy rates, long-term growth rates and other characteristics. Management considers that this is best achieved by aggregating into apartments, MHCs and other segments. Consequently, Killam is considered to have three reportable segments, as follows:

- Apartment segment - acquires, operates, manages and develops multi-family residential properties across Canada;
- MHC segment - acquires and operates MHC communities in Ontario and Eastern Canada; and
- Other segment - includes ten commercial properties.

Killam's administration costs, other income, financing costs, depreciation, fair value adjustments, loss on disposition and deferred tax expense are not reported to the CODM on a segment basis.

The accounting policies of these reportable segments are the same as those described in the summary of significant accounting policies described in note 2 to the consolidated financial statements for the year ended December 31, 2019. Reportable segment performance is analyzed based on NOI. The operating results, and assets and liabilities, of the reportable segments are as follows:

<b>Year ended December 31, 2019</b>	<b>Apartments</b>	<b>MHCs</b>	<b>Other</b>	<b>Total</b>
Property revenue	\$211,143	\$16,806	\$13,800	\$241,749
Property operating expenses	(76,405)	(6,342)	(6,666)	(89,413)
<b>Net operating income</b>	<b>\$134,738</b>	<b>\$10,464</b>	<b>\$7,134</b>	<b>\$152,336</b>

Year ended December 31, 2018	Apartments	MHCs	Other	Total
Property revenue	\$190,048	\$15,850	\$10,061	\$215,959
Property operating expenses	(69,377)	(6,095)	(4,775)	(80,247)
Net operating income	\$120,671	\$9,755	\$5,286	\$135,712

<b>As at December 31, 2019</b>	<b>Apartments</b>	<b>MHCs</b>	<b>Other</b>	<b>Total</b>
Total assets	\$2,987,201	\$234,366	\$158,533	\$3,380,100
Total liabilities	\$1,551,097	\$100,658	\$125,978	\$1,777,733

As at December 31, 2018	Apartments	MHCs	Other	Total
Total assets	\$2,492,830	\$177,795	\$153,781	\$2,824,406
Total liabilities	\$1,448,761	\$92,184	\$114,511	\$1,655,456

# Notes to the Consolidated Financial Statements

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

## 25. Supplemental Cash Flow Information

	Years ended December 31,	
	2019	2018
<b>Net income items related to investing and financing activities</b>		
Interest paid on mortgages payable and other	\$41,979	\$38,351
Interest paid on credit facilities	1,266	1,075
	<b>\$43,245</b>	<b>\$39,426</b>
<b>Net change in non-cash operating assets and liabilities</b>		
Rent and other receivables	(\$5,999)	(\$670)
Other current assets	(5,294)	(1,326)
Accounts payable and other liabilities	2,855	3,303
	<b>(\$8,438)</b>	<b>\$1,307</b>

## 26. Financial Instruments and Financial Risk Management Objectives and Policies

Killam's principal financial liabilities consist of mortgages, credit facilities, construction loans and trade payables. The main purpose of these financial liabilities is to finance investment properties and operations. Killam has various financial assets, such as tenant receivables and cash, which arise directly from its operations.

### Fair Value of Financial Instruments

Fair value is the amount that would be received in the sale of an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of interest-bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for similar term and current credit spreads for debt with similar terms and risks. The fair values of the Trust's financial instruments were determined as follows:

(i) the fair values of the mortgages payable are estimated 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 Killam might pay or receive in actual market transactions;

(ii) the fair value of the deferred unit-based compensation and the Exchangeable Units is estimated at the reporting date, based on the closing market price of the Trust Units listed on the TSX. The performance based RTUs are determined using a pricing model. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values;

(iii) the fair value of the derivative asset is calculated based on an estimate of the mid-market arbitrage-free price of the swap. The arbitrage-free price comprises the present value of the future rights and obligations between two parties to receive or deliver future cash flows or exchange other assets or liabilities. Future obligations are valued as the sum of the present values as of the valuation date of contractually fixed future amounts and expected variable future amounts, the expected size of which is calculated from the projected levels of underlying variables. Future rights are valued as the sum of the present values of the expected values of contingent future amounts, the existence and size of which are calculated from the projected levels of underlying variables.

## Notes to the Consolidated Financial Statements

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

### 26. Financial Instruments and Financial Risk Management Objectives and Policies (continued)

The significant financial instruments and their carrying values as at December 31, 2019, and December 31, 2018, are as follows:

As at  Classification	December 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets carried at FVTPL:</b>				
Derivative asset <sup>(1)</sup>	\$295	\$295	\$530	\$530
<b>Financial liabilities carried at amortized cost:</b>				
Mortgages and loans payable	\$1,438,270	\$1,478,413	\$1,292,476	\$1,319,513
<b>Financial liabilities carried at FVTPL:</b>				
Exchangeable Units	\$78,668	\$78,668	\$66,207	\$66,207
Deferred unit-based compensation	\$5,363	\$5,363	\$4,579	\$4,579

<sup>(1)</sup> The \$0.3 million derivative asset is included in other non-current assets within the consolidated statements of financial position.

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

As at	December 31, 2019	December 31, 2018
Mortgages - Apartments	2.59%	2.88%
Mortgages - MHCs	3.84%	4.68%

#### Assets and Liabilities Measured at Fair Value

Fair value measurements recognized in the consolidated statements of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.

Level 3: Valuation techniques for which any significant input is not based on observable market data.

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the consolidated statements of financial position is as follows:

As at	December 31, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>						
Investment properties	—	—	\$3,320,604	—	—	\$2,799,693
Derivative asset	—	\$295	—	—	\$530	—
<b>Liabilities</b>						
Exchangeable Units	—	\$78,668	—	—	\$66,207	—
Deferred unit-based compensation	—	\$3,987	\$1,376	—	\$3,944	\$635

Transfers between levels in the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer. There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the year ended December 31, 2019.

# Notes to the Consolidated Financial Statements

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

## 26. Financial Instruments and Financial Risk Management Objectives and Policies (continued)

### Risk Management

Killam may enter into derivative transactions, primarily interest rate swap contracts to manage interest rate risk arising from fluctuations in bond yields, as well as natural gas and oil swap contracts to manage price risk arising from fluctuations in these commodities. It is, and has been, Killam's policy that no speculative trading in derivatives shall be undertaken. The main risks arising from Killam's financial instruments are interest rate risk, credit risk and liquidity risk. These risks are managed as follows:

#### (i) Interest Rate Risk

Killam is exposed to interest rate risk as a result of its mortgages and loans payable; however, this risk is mitigated through Management's strategy to structure the majority of its mortgages in fixed-term arrangements, as well as, at times, entering into cash flow hedges. Killam also structures its financings so as to stagger the maturities of its debt, minimizing the exposure to interest rate volatility in any one year.

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

Killam's fixed mortgage debt, which matures in the next 12 months, totals \$223.1 million. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by \$2.2 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. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant.

Credit assessments are conducted for all prospective tenants and Killam also obtains a security deposit to assist in potential recoveries. In addition, receivables balances are monitored on an ongoing basis. Killam's bad debt expense experience has historically been less than 0.3% of revenue. None of Killam's tenants account for more than 4% of the tenant receivables as at December 31, 2019 or 2018. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

#### (iii) Liquidity Risk

Management manages Killam's cash resources based on financial forecasts and anticipated cash flows. Killam structures its financing so as to stagger the maturities of its debt, thereby minimizing Killam's exposure to liquidity risk in any one year. In addition, Killam's apartments qualify for Canadian Mortgage and Housing Corporation ("CMHC") insured debt, reducing the refinancing risk upon mortgage maturities.

Killam's MHCs do not qualify for CMHC insured debt; however, MHCs have access to conventional mortgage debt. Management does not anticipate 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, 2019, Killam refinanced \$154.1 million of maturing apartment mortgages with new mortgages totaling \$218.6 million, generating net proceeds of \$64.5 million. In addition, during the year ended December 31, 2019, Killam refinanced \$9.4 million of maturing MHC mortgages with new mortgages totaling \$13.8 million, generating net proceeds of \$4.4 million. The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities for the next five years and thereafter:

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

# Notes to the Consolidated Financial Statements

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

## 27. Capital Management

### Capital Management

The primary objective of Killam's capital management is to ensure a healthy capital structure to support the business and maximize unitholder value. Killam manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, Killam may adjust the distribution payment to unitholders, issue additional Units, issue debt securities or adjust mortgage financing on properties.

Killam's primary measure of capital management is the total debt to total assets ratio. Killam's strategy, as outlined in the operating policies of its DOT, is for its overall indebtedness not to exceed 70% of total assets. The calculation of the total debt to total assets is summarized as follows:

As at	December 31, 2019	December 31, 2018
Mortgages and loans payable	\$1,438,270	\$1,292,476
Credit facilities	—	53,350
Construction loans	24,851	60,502
Total interest bearing debt	\$1,463,121	\$1,406,328
Total assets <sup>(1)</sup>	\$3,371,477	\$2,824,406
Total debt as a percentage of total assets	43.4%	49.8%

<sup>(1)</sup> Excludes right-of-use asset of \$8.9M as at December 31, 2019.

The above calculation is sensitive to changes in the fair value of investment properties, in particular cap-rate changes. A 10 bps increase in the weighted average cap-rate as at December 31, 2019, would increase the debt as a percentage of assets by 80 bps.

## 28. Commitments and Contingencies

Killam has entered into commitments for development costs of \$52.0 million as at December 31, 2019 (December 31, 2018 - \$7.7 million).

Killam is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of Killam. However, actual outcomes may differ from Management's expectations.

Killam owns a 10% interest of a planned four-phase 829-unit development project in Calgary, Alberta. At the completion of construction of the first phase and the achievement of certain conditions of Phase 1, Killam has a \$55.0 million commitment in place to purchase three, four-storey apartment buildings, containing 233 residential units.

Killam entered into a supply contract for electricity to hedge its own usage, which is summarized below:

Area	Utility	Usage Coverage	Term	Cost
Alberta	Hydro	50%	January 1, 2020- December 31, 2020	\$58.39/MWh

## 29. Financial Guarantees

Killam is the guarantor on a joint and several basis for certain mortgage debt held through its joint operations. As at December 31, 2019, the maximum potential obligation resulting from these guarantees is \$85.1 million, related to long term mortgage financing (December 31, 2018 - \$128.5 million). During 2019, Killam acquired its partners' interest in two of the previous joint operation properties. The loans held through its joint operations are secured by a first ranking mortgage over the associated investment properties. Killam's portion of the total mortgages for these properties are recorded as a mortgage liability on the consolidated statements of financial position.

Management has reviewed the contingent liability associated with its financial guarantee contracts and, as at December 31, 2019, determined that a provision is not required to be recognized in the consolidated statements of financial position (December 31, 2018 - \$nil).

## Notes to the Consolidated Financial Statements

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

### 30. Related Party Transactions

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

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

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

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

### 31. Subsequent Events

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

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

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

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

# Five Year Summary

In thousands (except per unit and share data)

<b>Statement of Income Information</b>	<b>2019</b>	2018	2017	2016	2015
Net operating income	<b>\$152,336</b>	\$135,712	\$115,220	\$105,424	\$98,390
Other income	<b>\$6,059</b>	\$965	\$847	\$1,227	\$1,495
Financing costs	<b>(\$47,443)</b>	(\$42,648)	(\$34,846)	(\$37,698)	(\$38,957)
Administration	<b>(\$14,881)</b>	(\$14,201)	(\$12,958)	(\$12,733)	(\$11,898)
Depreciation	<b>(\$720)</b>	(\$859)	(\$787)	(\$884)	(\$802)
Fair value adjustments	<b>\$230,079</b>	\$127,877	\$56,202	(\$11,231)	(\$6,103)
Loss on disposition	<b>\$(1,269)</b>	(\$197)	(\$259)	(\$264)	(\$109)
Deferred tax recovery (expense)	<b>(\$40,636)</b>	(\$31,478)	(\$18,659)	\$27,598	(\$6,216)
Net income	<b>\$283,525</b>	\$175,171	\$104,760	\$71,439	\$35,800
Net income attributable to unitholders/common shareholders	<b>\$283,536</b>	\$175,144	\$104,732	\$67,982	\$34,557

## **Funds From Operations (FFO)**

FFO	<b>\$93,884</b>	\$81,808	\$69,873	\$58,886	\$49,016
FFO per unit/share (diluted)	<b>\$0.98</b>	\$0.94	\$0.90	\$0.86	\$0.79

## **Statement of Financial Position Information**

Total assets	<b>\$3,380,100</b>	\$2,824,406	\$2,311,210	\$1,987,929	\$1,876,826
Total liabilities	<b>\$1,777,733</b>	\$1,655,456	\$1,343,488	\$1,237,463	\$1,190,948
Total equity	<b>\$1,602,367</b>	\$1,168,950	\$967,722	\$750,466	\$685,328

## **Statement of Cash Flow Information**

Cash provided by operating activities	<b>\$95,208</b>	\$89,738	\$82,916	\$64,011	\$50,947
Cash provided by financing activities	<b>\$146,708</b>	\$237,657	\$154,460	\$52,356	\$21,954
Cash used in investing activities	<b>(\$232,904)</b>	(\$335,606)	(\$250,028)	(\$106,013)	(\$79,378)

## **Unit Information <sup>(1)</sup>**

Weighted average number of units <sup>(2)</sup>	<b>95,719</b>	86,949	77,575	67,912	62,097
Units outstanding at December 31 <sup>(2)</sup>	<b>102,017</b>	90,212	84,428	71,736	62,863
Unit price at December 31	<b>\$18.94</b>	\$15.89	\$14.22	\$11.94	\$10.51
Market Capitalization at December 31 <sup>(2)</sup>	<b>\$1,932,201</b>	\$1,433,469	\$1,200,566	\$856,528	\$660,690

(1) Killam converted to a real estate investment trust (REIT) effective January 1, 2016. References to REIT units prior to that date relate to common shares of Killam Properties Inc.

(2) Includes Trust Units and Exchangeable Units.

# Executive Team



**Philip Fraser**  
*President & Chief Executive Officer*



**Robert Richardson, FCPA, FCA**  
*Executive Vice President*



**Dale Noseworthy, CPA, CA, CFA**  
*Chief Financial Officer*



**Ruth Buckle**  
*Senior Vice President,  
Property Management*



**Erin Cleveland, CPA, CA**  
*Senior Vice President, Finance*



**Michael McLean**  
*Senior Vice President,  
Developments*



**Nancy Alexander, CPA, CA**  
*Vice President, Investor Relations  
& Sustainability*



**Pamela Crowell**  
*Vice President, Commercial Leasing  
& MHC Management*



**Carrie Curtis, P. Eng.**  
*Vice President, Ontario  
and Alberta*



**Jeremy Jackson**  
*Vice President, Marketing*



**Brian Jessop P.Eng, CPM**  
*Vice President, Operations*



**Colleen McCarville**  
*Vice President,  
Human Resources*

## Board of Trustees

### **Timothy Banks**

*President & CEO,  
APM Group of Companies  
Charlottetown, Prince Edward Island*

### **Philip Fraser**

*President & CEO,  
Killam Apartment REIT  
Halifax, Nova Scotia*

### **Robert Kay<sup>(1)</sup>**

*Chairman of the Board,  
Killam Apartment REIT  
Chairman,  
Springwall Group International  
and Springwall Sleep Products Inc.  
Moncton, New Brunswick*

### **Aldéa Landry<sup>(2)</sup>**

*President, Landal Inc.  
Moncton, NB*

### **James Lawley**

*President, Salters Gate Developments  
Halifax, Nova Scotia*

### **Arthur Lloyd<sup>(2)</sup>**

*President, ADAM Capital  
Calgary, Alberta*

### **Karine MacIndoe<sup>(1)(3)</sup>**

*Trustee, Toronto, Ontario*

### **Robert Richardson, FCPA, FCA**

*Executive Vice President,  
Killam Apartment REIT  
Halifax, Nova Scotia*

### **Manfred Walt, CPA, CA<sup>(2)</sup>**

*President & CEO,  
Walt & Co. Inc.  
Toronto, Ontario*

### **Wayne Watson, CPA, CA<sup>(1)(3)</sup>**

*Trustee, Halifax, Nova Scotia*

*(1) member of the Audit Committee*

*(2) member of the Governance and ESG Committee*

*(3) member of the Compensation Committee*

## Trust Information

### **Auditors**

**Ernst & Young, LLP**  
Halifax, NS

### **Solicitors**

**Bennett Jones, LLP**  
Calgary, AB  
**Stewart McKelvey**  
Halifax, NS

### **Registrar and Transfer Agent Computershare Investor Services Inc.**

1500 Robert-Bourassa Blvd  
7th Floor  
Montreal, Quebec  
H3A 3S8

### **Unit Listing**

Toronto Stock Exchange (TSX)  
Trading Symbol: KMP.UN

### **2019 Annual Distribution**

\$0.66 per unit

### **Head Office**

3700 Kempt Road  
Suite 100  
Halifax, NS B3K 4X8  
902.453.9000  
866.453.8900

### **Investor Inquiries**

investorrelations@killamreit.com  
902.442.0374

### **Annual Meeting**

The Annual Meeting of Unitholders will be held on **Thursday, May 7, 2020, 1:30 pm** Atlantic Time in person at 3700 Kempt Road, Halifax, NS, or via webcast.



**Killam**  
APARTMENT REIT

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