Killam Properties Inc
Annual Report | 09

Stability

Stability: The quality of being stable. *Operating results from Killam's multi-family residential properties and manufactured home communities highlighted the Company's stability in 2009.*

Killam Defined

Killam is one of Canada's largest residential landlords, owning and operating 8,957 apartment units in Atlantic Canada and 9,290 manufactured home community (MHC) sites across Canada. Starting with its first acquisition in 2002, Killam has built an established portfolio of 173 high-quality properties and a strong operating platform. Management is committed to building on this foundation; maximizing the return on Killam's assets, and continuing to grow geographically with accretive acquisitions in Canada.

Killam's Mission

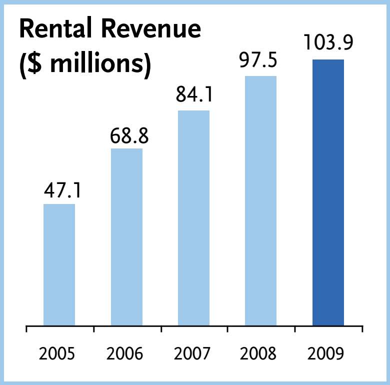
To have a team of caring staff deliver clean, safe, quality housing to tenants who are proud to call our properties home, and to be a fiscally responsible company that is recognized as a community leader.

Contents

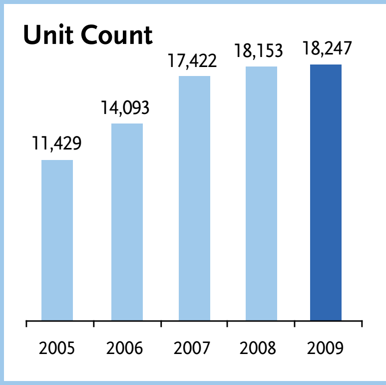
Residents of The James in Halifax, Jaclyn and Josh, enjoy a laundry room with a view.

Centrally Located: Ideally situated in core neighbourhoods within urban centres. *Killam's portfolio of centrally located apartments in urban Atlantic Canada provides tenants a choice of properties to best meet their housing needs.*

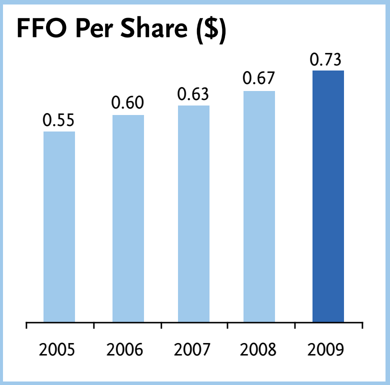
Growth: The ability to increase in size and profitability.
Killam has been increasing its earnings by focusing on both improving the performance of existing properties and by growing the portfolio through acquisitions, with success on both fronts.



Killam's revenue growth is attributable to the combination of a growing portfolio, improved occupancy and annual growth in rental rates.



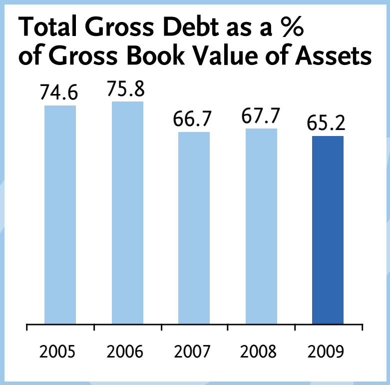
Killam has grown its portfolio through acquisitions since its first properties were acquired in 2002. After a slow year of acquisitions in 2009, the Company plans to expand the portfolio by $100 million to $150 million in 2010.



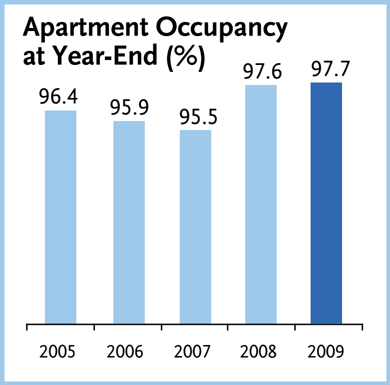
FFO per share increased by 9.0% in 2009, driven by the strong performance of Killam's existing portfolio. Killam has posted FFO per share growth every year of its eight-year history.*

* FFO, or funds from operations, is calculated by the Company as net loss plus depreciation, amortization, stock compensation and non-cash debenture interest, less gains on debt retirement and future income tax recovery. FFO is a non-GAAP measure.

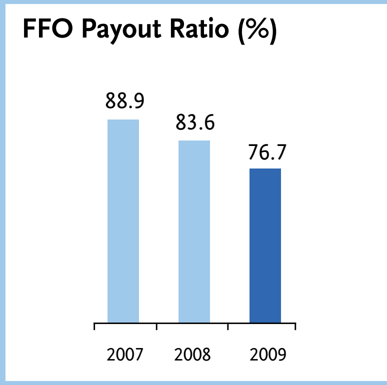
Strength: The ability to respond to adverse conditions and react to acquisition opportunities. *A stronger balance sheet, with cash on hand and lower debt levels, along with high occupancy rates and a lower FFO payout ratio, means Killam is in a position to continue its accretive growth plan.*



Killam's target debt level, as a percent of the gross book value of assets, is between 65% and 70%. The lower end of this target was achieved in 2009 following an equity raise in July of 2009.



Strong occupancy levels were maintained in Killam's core markets in 2009, supporting rent increases in the year. The average rent for Killam's same store apartment portfolio increased by 3.3% during 2009.



Killam's FFO payout ratio, defined as dividends as a percentage of FFO, has improved since the monthly dividend was introduced in 2007, providing increased flexibility for the Company. Killam started paying a monthly dividend in March of 2007; the 2007 payout ratio represents the annualized dividend from that year.

2009 Financial and Operating Highlights

(in thousands, except per share amounts)

AS AT AND FOR THE YEARS ENDED	2009	2008	2007
Operations			
Total revenue	**$107,537**	$105,490	$89,020
Income from property operations	**$62,606**	$56,458	$49,967
Income from home sales	**$234**	$1,172	$488
Interest expense	**$30,699**	$29,999	$27,596
Funds from operations (FFO)	**$26,339**	$22,461	$18,696
FFO per share (basic)	**$0.73**	$0.67	$0.63
Dividends declared per share	**$0.56**	$0.56	$0.47
Financial Position			
Total assets	**$739,373**	$738,668	$723,680
Total liabilities	**$562,171**	$565,475	$529,796
Total debt as a percent of assets	**65.2%**	67.7%	66.7%
Interest coverage ratio	**1.84**	1.73	1.66
Shareholders' equity	**$177,202**	$173,193	$193,884
Shares outstanding	**38,519**	34,028	33,393
Portfolio Information			
Apartment units	**8,957**	8,924	8,735
MHC sites	**9,290**	9,229	8,687
Total units	**18,247**	18,153	17,442

Increased funds from operations per share by 9.0% to $0.73.

Achieved same store operating revenue growth of 4.2%.

Increased same store net operating income by 8.4%.

Maintained high occupancy rates throughout the year.

Strengthened the balance sheet, ending 2009 with debt as a percentage of the gross book value of assets of 65.2%, compared to 67.7% at December 31, 2008.

Growth in share price of 96.9% in 2009.

Kenny ,Spring Garden Terrace doorman, provides exceptional service to Killam tenants, including Ann, long-time resident of Spring Garden Terrace.

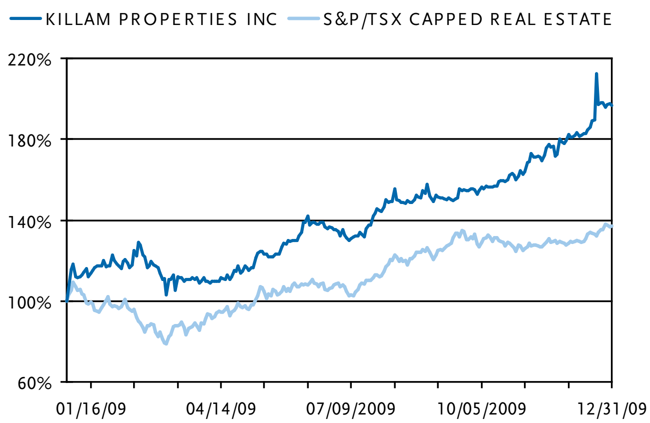
Service Excellence: Providing reliable, responsible and friendly service; having a team of dedicated staff committed to enhancing tenants' rental experiences. *Killam's 160 resident and assistant resident managers expand their skills through Killam's Resident Manager Training Program.*

President’s Letter

Dear Shareholder,

I am pleased to report on Killam’s performance in 2009. In a year marked by job losses and global economic slowdown we delivered outstanding operating results, growing the cash flow from our existing portfolio, increasing funds from operations per share, and achieving one of the strongest share appreciations in the Canadian real estate market.

Killam Vs. S&P TSX Capped Real Estate Index



Killam’s multi-residential focus in Atlantic Canada proved to be a shelter from the turbulence experienced by many businesses in Canada and around the world. The theme that resonated throughout the year for Killam was stability: stable markets, a stable asset class and a stable dividend. This stability is not new to Killam, but investors’ demand for secure and predictable investments was magnified over the last year. We have highlighted Killam’s key characteristics, including stability, growth and strength, throughout this year’s annual report.

Strong Internal Growth

Killam’s same store net operating income (NOI) growth of 8.4%, the highest annual growth in our history, was the highlight of the year. Same store properties, representing 97% of the portfolio in 2009, reflect the performance of the portfolio as a whole. This marks the sixth consecutive year of same store growth and reconfirms Killam’s ability to grow the profitability of its existing portfolio.

The ability to pass through increases in rent, which increased an average of 2.9% in the year, and improve occupancy levels, combined with decreased energy costs and more efficient operations, all contributed to Killam’s NOI growth. These strong operating results drove the Company’s 9.0% increase in FFO per share in 2009, despite the 7.9% increase in shares outstanding following our July 2009 equity raise.

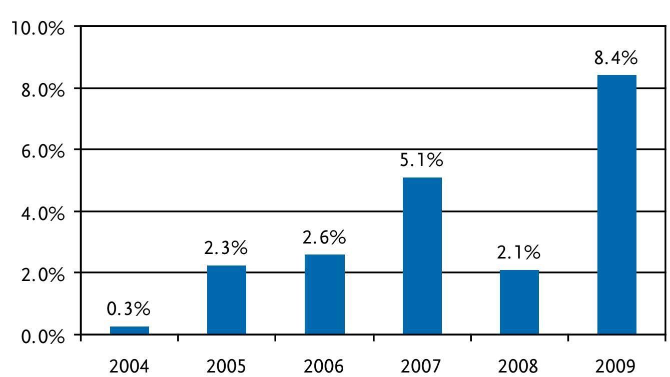
Balance Sheet Strengthened

We raised $25 million through an equity offering in the summer of 2009, following an improvement in the broader capital markets, which had essentially been closed during the first quarter of the year. At the time, there was still considerable uncertainty as to how long the equity markets would be accessible. We raised funds to strengthen Killam’s balance sheet, and to increase our cash on hand, giving us the ability to pursue acquisition opportunities as they arose.

We used a portion of the cash to repurchase $10 million of Killam’s $20 million

“The theme that resonated throughout the year for Killam was stability.”

Historic Same Store NOI Growth



subordinated debentures at 89% of their face value in December of 2009. This opportunity enabled us to further reduce our debt as a percentage of the gross book value of assets.

Decreasing debt levels has been a focus of management since 2007 and our goal has been to maintain debt levels of between 65% and 70% of the gross book value of assets. We believe that a lower percentage of debt gives the Company more flexibility and brings our debt levels more in line with many of our peers.

"This marks the sixth consecutive year of same store growth and confirms Killam's ability to grow the profitability of its existing portfolio."

Patient on the Acquisition Front

We had expected to deploy a portion of the capital raised toward acquisitions during the second half of 2009; however, we ended the year without adding any new properties to our portfolio. I can tell you that this was not for lack of effort. We were very active in looking for potential acquisitions. We toured numerous apartment buildings in both Atlantic Canada and Ontario looking for assets that would complement our existing portfolio. We continue to be interested in expanding our apartment ownership into Ontario, specifically in Ottawa, the Greater Toronto Area and the Kitchener-Waterloo region.

We identified a number of properties but we were ultimately not able to reach an agreement. In Ontario, rent control and a lack of new rental stock has resulted in limited incentive for many landlords to invest in their properties, leading to some instances of high levels of deferred maintenance. This is a substantial difference from the non-rent controlled apartment markets in Atlantic Canada, where landlords can recover capital invested with higher rents, leading to increased motivation to maintain properties.

We are prepared to take on buildings that require additional investment, but we believe the purchase price must reflect the additional capital required to address deferred maintenance when calculating the return. This has meant a slower entry into the Ontario apartment market than we had planned, but, as I have noted before, we have a highly selective acquisition approach and we are prepared to be patient in entering this new market.

Killam's Stability Highlighted in 2009

As I mentioned, the word stability was used more than any other in describing our company during 2009. Atlantic Canada highlighted its stable economy during the past year as employment levels continued to increase in most urban areas, along with home prices. Over the last ten years Atlantic Canada has shown steady growth. The region's diverse economic base, including government, military, universities, services and retail, means less reliance on manufacturing compared to many of the regions hardest hit by job losses this past year. In addition, Atlantic Canada's urban centres continue to attract people from rural areas. This, along with positive immigration, has translated into a consistent flow of new residents to our largest cities, often entering the rental market.

The multi-residential sector, as an asset class, has historically been very stable, and it also tends to be counter-cyclical in economic downturns. As homeownership becomes less affordable for many, rental accommodations become an important alternative.

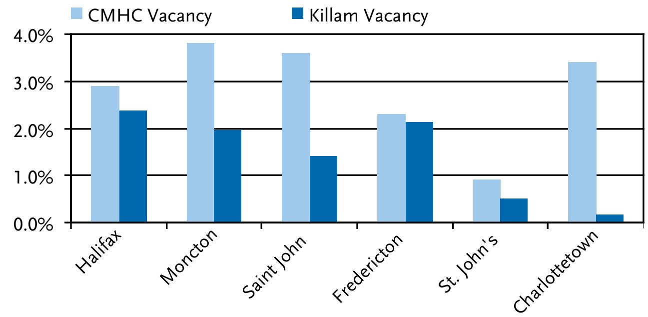
As the largest landlord in Atlantic Canada, we benefited in 2009 as demand for our units remained strong. We achieved the highest annual occupancy in our history, ending the year at 97.7% in our apartment portfolio. This improvement is especially notable, as we surpassed 2008 occupancy levels, which had previously been Killam's highest recorded occupancy.

This achievement was due to our operational staff, who, led by Ruth Buckle-McIntosh, our Vice President, Property Management, were dedicated to maintaining our high occupancy. The result was that Killam outperformed the market in 2009, posting lower vacancy in October 2009 in all six of our core apartment markets than the Canadian Mortgage and Housing Corporation (CMHC) averages reported for the same period in their Rental Market Report – an exceptional accomplishment.

The MHC portfolio also performed well in 2009 with continued stable occupancy levels. Since we acquired our first MHC in 2003, occupancy levels have remained at approximately 99%. This asset class adds diversification to Killam's apartment portfolio, along with a predictable cash flow and the opportunity for organic growth with both increased rents and expansion opportunities.

"We continue to be interested in expanding our apartment ownership into Ontario, specifically Ottawa, the Greater Toronto Area and the Kitchener-Waterloo region."

Killam vs. CMHC Vacancy Oct 2009



Maintaining Our Portfolio

We have invested over $90 million in capital improvements in our portfolio over the last five years. This includes $8 million in major repositioning projects and $9 million in development projects, comprising primarily the expansion of MHC sites. In 2009 we continued to invest, with $10 million of capital improvement spending and $5 million in energy and development projects. The amount of annual capital improvement spending has decreased from a high in 2006, as the majority of the large investment requirements have been made. We believe in investing to secure the long-term performance of our assets and that well-maintained buildings and modernized units will lead to strong occupancy and the opportunity to increase rents over time. Our capital programs are most extensive in the first two years following acquisitions, as units are renovated as they become available on turns, and outstanding deferred capital requirements are addressed.

The Atlantic Canadian market is different from many other multi-family markets in Canada due to the absence of rent control, with the exception of PEI, and the continued new construction that occurs on an annual basis. Halifax has seen over 6,000 new rental units, equal to approximately 15% of the current rental stock of 40,000 units, come on the market over the last ten years. This is among the highest construction of new rental units on a per capita basis in Canada. The new

"We achieved the highest occupancy in our history, ending the year at 97.7% occupancy in our apartment portfolio"

product has modern features and often larger units that generate above-average rents. This continuous flow of new product means that older buildings must be maintained to compete in the market. This translates into a high-quality base of apartments in Halifax, and most cities in Atlantic Canada, and explains why the issue of deferred maintenance is not a significant concern in Eastern Canada compared to other regions in Canada.

Strengthening Our Operations

I am pleased to provide an update on the operational priorities we focused on during the past year, which included green initiatives, increased employee training and risk mitigation.

Energy and utility costs represent approximately 35% of Killam's operating costs, making us highly motivated to do all we can to manage this expense. During 2009, we completed the installation of solar panels at 21 Plateau, a 41-unit building located in Halifax and our fifth property using solar power. This technology uses the sun's energy to pre-heat hot water, resulting in energy savings of 10% to 20% on an annual basis.

We also invested in our first two wind turbines, a 6 kilowatt turbine, and, subsequent to year-end, a larger 65 kilowatt turbine at Mountainview Estates MHC, just outside Halifax. The electricity generated offsets the energy we consume in powering the community's water treatment plant. The reduced net usage from the electrical grid helps to mitigate the impact of rising electricity costs while reducing the company's consumption of fossil fuels and our carbon footprint. Also initiated in 2009 was the distribution of water saving kits throughout our apartment and MHC portfolios in Halifax. This initiative, which will reduce water consumption, will be expanded throughout Killam's portfolio in 2010.

Expanding our employee training program was another priority for 2009. Our operations and human resources groups worked together to create the Resident Manager Certification Program. This training course addresses different aspects of the resident manager's job, including tenant relations, safety and regular maintenance issues. The feedback has been very positive as staff throughout the portfolio gain the knowledge and skills to more effectively manage their properties.

A third priority to highlight was the risk mitigation initiatives we focused on this past year, including tenant insurance and oil tank inspections and insurance for our MHC tenants. Although not a legal requirement, we feel that all tenants should have tenant insurance to protect themselves in the event of fire or other disasters. We conducted an extensive information program to help educate our tenants on the importance of tenant insurance. The result was that by the end of the year 57% of our apartment tenant base had insurance. We will continue this program in 2010.

Less than 15% of the 9,000 homes in our MHC communities use oil as their main source of heat. In an effort to limit Killam's exposure to oil spills, which can include costly clean-ups, we have been proactive in both performing oil tank inspections and in requiring MHC tenants with oil tanks to confirm that their insurance coverage includes oil spills. These efforts should limit the Company's environmental and financial exposure to oil spills in the future.

Priorities for 2010

Our priority for the year ahead, as it has been in the past, is to acquire well-located, high-quality assets while aggressively managing our current portfolio. We continue to work to enhance the rental experience for our tenants and improve the performance of our portfolio.

We believe that having satisfied tenants is key to Killam's long-term success. In 2010 we plan to expand our website to address tenants' specific needs, formalize and measure our 24-hour response to service requests and implement additional tenant services and programs.

Continuing to grow the profitability of our existing portfolio is always a priority. We expect to do this in the year ahead with rental increases, expected to average 3% in 2010, and with a focus on energy conservation. We will continue to expand our green initiatives because it is the right thing to do and it also decreases our energy consumption. In addition, we plan to realize value in our excess land by starting the development of a new apartment building in Halifax in 2010. Development is an exciting new venture for Killam, one that will allow us to maximize the potential of our most valuable pieces of surplus land, and increase the number of new, modern properties in our portfolio.

"On the acquisition front, we are targeting between $100 million and $150 million of properties in 2010."

On the acquisition front, we are targeting between $100 million and $150 million of properties in 2010 and expect to realize our entrance into the apartment market in Ontario. We have greatly expanded our knowledge of the Ontario apartment market over the last two years and have a strong understanding of the tenant base and the maintenance issues that impact many properties in this market. We will be selective in our acquisitions and will focus on high quality properties, including newer buildings and more established buildings in prime locations.

In closing, I would like to thank Killam employees, management and the board of directors for an extraordinary year, and on behalf of Killam, to thank you, the shareholders, for your continued support and interest in Killam Properties Inc.

Philip Fraser
President & CEO

Management

Senior Management Team

Killam's senior management team brings a wealth of real estate, property management, finance and marketing experience.

Philip Fraser
President & CEO

Robert Richardson, FCA
Executive Vice President & CFO

Ruth Buckle-McIntosh
Vice President, Property Management

Keith Foster, CA
Vice President, Finance

Michael McLean
Vice President, Development

Pamela Crowell, Vice President,
Property Management (MHCs)

Jeremy Jackson
Vice President, Marketing

Ingrid, resident of 21 Parkland, enjoys a visit with granddaughter Bridget.

Apartments

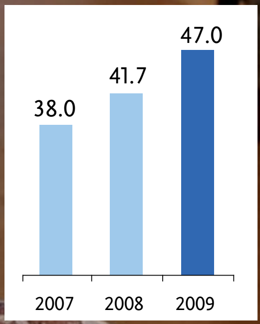
Performance Highlights

- Maintained high occupancy throughout the year
- Same store revenue growth of 4.3%
- Same store NOI growth of 10.0%
- Increased operating margin following revenue growth and lower operating costs, including decreased energy costs

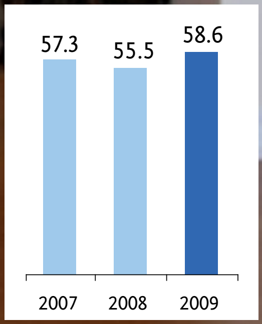
Future Plans

- Further improve profitability with rental rate growth and operating efficiencies
- Grow the business through acquisitions in Atlantic Canada and Ontario

Apartment Net Operating Income (NOI) ($ millions)



Apartment Operating Margin (%)



Home

Home Pride: Having a high opinion of one's place of residence. *Killam is proud of its portfolio of assets and wants its tenants to be proud to call a Killam property home. Killam consistently addresses capital and maintenance needs, keeping properties looking and operating at their best.*

Q&A with Philip Fraser, President and CEO

You have realized strong NOI growth in 2009. What drove the 8.4% growth? What kind of growth is sustainable?

Both the MHC and apartment businesses performed very well in 2009. The MHC portfolio generated positive NOI growth of 4%, but it was the apartment portfolio that outperformed with 10% same store NOI growth. The most significant contributors to the growth were increased rents and lower energy costs. These improvements were further augmented by occupancy improvements and stable operating expenses.

Rents in the apartment portfolio increased an average of 3.3% during the year, slightly higher than the 2.8% and 2.4% increases achieved in 2007 and 2008, respectively. The increase in 2009 was achievable due to Killam's very strong occupancy. Generally, we expect to realize annual rent increases of 3% in 2010.

A 9.6% decrease in utility costs during the year also contributed to the NOI growth. Utilities represent approximately 35% of the apartment portfolio's operating costs. Killam benefited in 2009 as reduced oil and natural gas costs more than offset higher electricity and water costs. We do not expect to see this kind of savings on an annual basis.

We believe that annual same store NOI growth of 2% to 4% is a sustainable increase for the portfolio.

What is your plan going forward to reduce your reliance on volatile energy costs?

We are focusing on energy conservation and green initiatives to manage our energy usage. We can not control the cost of energy, but we can control and monitor how much energy we consume. Investments in solar panels, lighting retrofits, natural gas conversions, water conservation kits and wind energy are some of the things we have been focused on. Looking forward, we plan to continue to expand these programs.

Killam has been paying the same annualized dividend since it started paying a dividend in 2007. What are the Company's future plans regarding the dividend?

We recognize that the dividend is an important cash flow for our investors. Killam's board of directors reviews the dividend on a regular basis and has been pleased to see the dividend payout ratio improve since 2007. The FFO payout ratio has decreased to 77% in 2009 from 84% in 2008. As a significant monthly cash flow, the board appreciates the flexibility provided with a lower payout ratio. The board has not disclosed a specific payout ratio that it expects to maintain.

Answers

Why is Killam not structured as a REIT?

A future Real Estate Investment Trust (REIT) conversion continues to be an option for Killam but is not an immediate priority. The Company is not currently cash taxable, and does not anticipate being cash taxable over the next three to four years, as unclaimed Capital Cost Allowance (CCA) has the ability to reduce taxable income. Therefore, under a REIT structure, Killam's cash flow would be similar to its current corporate structure.

Killam's board of directors continues to monitor the potential conversion to a REIT and may focus more on this opportunity in the future. The tax treatment of cash dividends versus REIT distributions to the investor will be one of the factors considered, as the current dividends are considered eligible dividends and allow attractive tax advantages to shareholders.

You have been talking about expanding into Ontario with apartment acquisitions for a couple of years now. What has been the delay in purchasing in the Ontario market?

There have been a few factors that resulted in a slower entrance into the market than we had expected, the first being the economic slowdown in 2008 and 2009. For almost a year global real estate transaction activity slowed significantly as buyers and sellers waited for the unstable financial markets to settle. We were waiting on the sidelines during this time, looking forward to seeing attractive buying opportunities emerge. This did not happen, as distressed sellers of multi-family real estate did not materialize. Multi-family residential owners continued to enjoy demand for their assets and had access to CMHC insured debt, limiting the refinancing risk.

I am confident that we will be successful in entering the Ontario market with accretive acquisitions that complement our existing portfolio and provide long-term value.

What do you think Killam Properties will look like five years from now?

I expect that Killam Properties will be a larger company and my goal is that we will have doubled in size, with an increased focus in Ontario. Today only 12% of our net operating income is generated outside of Atlantic Canada. In five years we would like to see that number grow to 50%. To get there we will need to be active on the acquisition front, with a focus in Ontario. We will also continue to grow in Atlantic Canada as we add to our existing portfolio.

You have plans to continue to grow Killam through acquisitions. How do you plan to fund future growth?

Future growth will be funded primarily through mortgage debt and the issuance of additional equity. Growth plans will be partly dependent on Killam's cost of capital. A continued improvement in the dividend payout ratio through annual FFO per share growth will also allow Killam to reinvest cash in acquisition activities.

MHCs

Performance Highlights

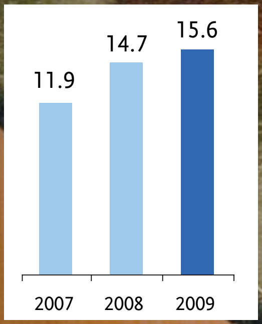
- Maintained occupancy of 99% through the year
- Same store revenue growth of 3.6%
- Same store NOI growth of 4.0%
- Expanded existing portfolio with the development of 59 new sites
- Completed 34 home sales and home sale placements

Future Plans

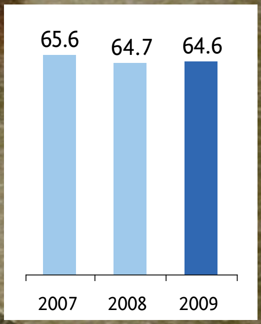
- Continue growth through rental increases, strong occupancy and stable costs
- New site expansions of 50 to 100 per year
- New home sales activity will continue

Mary, tenant and employee of Killam, relaxes in her new manufactured home in Fairview MHC in Halifax.

MHC Net Operating Income (NOI) ($ millions)



MHC Operating Margin (%)



Diversified: Owning and operating a variety of properties. *MHCs add diversification to the apartment portfolio, providing increased stability and predictability. Killam's 55 manufactured home communities across Canada provide an affordable home ownership alternative in a community environment.*

Apartments

Nova Scotia

Property	Units	Year Built	Average Rent Dec-09	Average Rent Dec-08
Halifax				
1 Oak Street	146	1969	$792	$766
10 – 214 Harlington Crescent	60	1978	733	704
159 Radcliffe Drive	25	1995	902	877
175 – 211 Harlington Crescent	60	1978	730	708
21 Parkland Drive	98	2002	1,021	980
26 Alton Drive & 36 Kelly Street	80	1969	635	617
294 – 300 Main Street	58	1969	732	682
3 Veronica Drive	70	1983	803	772
31 Carrington Place	38	1998	1,116	1,081
3565 Connaught Avenue	19	1958	741	720
50 Barkton Lane	63	1991	771	749
5206 Tobin Street	47	1993	982	947
57 Westgrove Place	41	1969	721	694
59 Glenforest/21 Plateau	153	1978	701	670
6 Jamieson Street	24	1965	682	656
6087 South Street	9	1999	1,287	1,310
6101 South Street	30	2002	1,398	1,395
67 – 141 Harlington Crescent	60	1978	722	696
75 Knightsridge Drive	41	1986	811	790
85 – 127 Harlington Crescent	60	1978	729	709
9 Bruce Street	60	1974	544	521
9 Sybyl Court	22	1975	668	647
95 Knightsridge Drive	46	1984	882	857
Bedford Apartments	53	1987	709	685
Dillman Place	60	1970s	671	652
Garden Park Apartments	75	1980	845	806
Glenforest Apartments	80	1969	820	803
Glenmoir Terrace	28	1972	672	645
Hillcrest Apartments	50	1980	734	707
Kent Street Properties	139	1950s	806	785
Lakefront Apartments	396	1954	683	663
Linden Lea & Pleasant Street	28	1950s	628	616
Maplehurst Apartments	268	1965	730	706
Maplehurst Houses	15	1965	942	924
Parker Street Apartments	239	1960-75	685	665
Parkridge Place	76	2002	914	888
Quinpool Court	198	1978	948	930
Quinpool Towers	233	1978	980	956
Shaunslieve Apartments	154	1978	778	758
Sheradon Place	82	1979	817	788
Spring Garden Terrace	201	1964	1,051	1,016
The James	108	2008	1,313	1,363
Victoria Gardens	198	1954	690	668
Waterview Place	82	1971	729	700
Halifax Total	**4,073**			
Sydney				
552 Kings Road	17	1974	$596	$596
Cabot House	88	1974	806	786
Moxham Court	51	1998	896	861
Sydney Total	**156**			
Nova Scotia Total	**4,229**			

New Brunswick

Property	Units	Year Built	Average Rent Dec-09	Average Rent Dec-08
Fredericton				
116 & 126 Wilsey Avenue	48	1975	$679	$670
127 & 157 Biggs Street	46	1985/92	720	710
260 Wetmore Road	38	1978	691	658
50,60 Greenfield & 190 Parkside	72	1977/86	640	621
75 Greensfield Drive	44	1980	609	587
969 Regent Street	62	1997/01	833	806
Carrington House	41	2002	885	867
Elroy Apartments	194	1973	758	746
Forest Hill Towers	151	1968-1979	787	778
Princess Place	141	1968-1979	714	691
Southgate Apartments	47	2003	892	873
Venus Apartments	54	1965	809	807
Westwood Apartment	45	1975	606	594
Fredericton Total	**983**			
Moncton				
100 Archibald Street	60	2003	$760	$737
101 Archibald Street	60	1993	713	695
108 – 118 Archibald Street	2	n/a	663	648
1111 Main Street	16	1957	1,476	1,476
276 – 350 Gauvin Road	84	1991-96	668	646
303 Normandie Street	70	1994	756	736

New Brunswick

Property	Units	Year Built	Average Rent Dec-09	Average Rent Dec-08
Moncton *continued*				
316 Acadie Avenue	48	1996	681	654
360 Acadie Avenue	60	1998	675	653
364 – 368 Gauvin Road	80	1995	697	679
Buckingham Place	55	1998	759	736
Cambridge Court	45	1994	808	789
Cambridge Place	63	1995	989	961
Cameron Street	81	1966/1967	616	598
Gordon/Bonaccord Street	41	1984/pre 1950	633	617
Lakeview Estates	48	1980/81	626	600
Lorentz Apartments	101	1969	694	673
Lutz & Kendra Street	40	1950/75	681	665
Pine Glen Apartments	54	1974	675	654
Suffolk Street	80	2000	682	664
Moncton Total	**1,088**			
Saint John				
115 Woodhaven Drive	24	1977	$565	$547
37 Somerset Place	21	2007	1,070	1,069
53 Somerset Place	16	1973	644	624
Blue Rock Estates	60	2007	775	781
Carleton Towers	60	1968	642	630
Cedar Glen Apartments	204	1977	647	627
Ellerdale Apartments	154	1975	613	598
Fort Howe Apartments	153	1970	741	724
Parkwood Apartments	205	1947	611	592
Rocky Hill Apartments	42	2004	890	863
Sydney Arms	54	1961	696	665
The Anchorage	51	2003	882	863
Woodward Gardens	99	1962	739	721
Saint John Total	**1,143**			
Mirimichi				
Edward Court	96	1993	$623	$601
New Brunswick Total	**3,310**			

Newfoundland

Property	Units	Year Built	Average Rent Dec-09	Average Rent Dec-08
St. John's				
Blackshire Court	69	1981	$695	$685
Cornwall Manor	31	1976	581	550
Forest Manor	65	1978	622	590
Freshwater Road Apartments	159	1972	620	567
Mount Pleasant Manor	100	1976	589	572
Pleasantview Manor	36	1979	583	544
Torbay Road Apartments	84	1972	595	560
Village Manor	40	1978	615	587
St. John's Total	**584**			
Grand Falls				
Ridgeview Terrace	59	1975	$481	$492
Terrace Apartments	89	1970/90	705	697
Grand Falls Total	**148**			
Newfoundland Total	**732**			

Prince Edward Island

Property	Units	Year Built	Average Rent Dec-09	Average Rent Dec-08
Charlottetown				
198 Spring Park Road	32	2006	$998	$986
27 Longworth Avenue	24	1983	636	601
319 – 323 Shakespeare Drive	22	2004	810	771
505 – 525 University Ave	35	2003	1,037	997
Bridlewood Apartments	66	1999	811	774
Browns Court	52	1997	934	894
Burns/University	95	2003	944	886
Country Place	39	1998-02	828	788
DesBarres House	51	1978	558	542
Horton Park	69	1987	745	704
Kensington Court	105	1990	735	692
Queen Street	48	1978	616	579
Charlottetown Total	**638**			
Summerside				
Nevada Court	48	1995	$705	$677
Prince Edward Island Total	**686**			
Total Portfolio	**8,957**		**$758**	**$736**

Manufactured Home Communities

Ontario	Sites	Acres	Average Rent Dec-09	Average Rent Dec-08
Bayview Estates	146	60	$230	$223
Cedardale (1)	204	25	150	159
Domaine Le Village	74	35	265	252
Family Paradise (1)	214	50	150	134
Fegushill Estates	152	49	321	312
Golden Horsehoe	267	33	313	302
Green Haven Estates	230	45	299	293
Holiday Harbour (1)	143	15	124	142
Holiday Park (1)	289	35	137	127
Lakewood Estates	60	13	257	249
Lynnwood Gardens	64	54	289	275
Millcreek	73	35	364	353
Paradise Valley (1)	392	109	158	145
Parkside Estates	144	80	299	291
Pine Tree Village	70	38	344	335
Pinehurst Estates	82	16	217	210
Rockdale Ridge	69	96	238	231
Silver Creek Estates	237	80	300	295
Stanley Park	108	76	266	256
Sunny Creek Estates	160	53	185	179
The Village at Listowel	87	53	267	261
Westhill Estates	95	8	272	263
Woodhaven (1)	126	50	153	141
Ontario Total	**3,486**			

Nova Scotia	Sites	Acres	Average Rent Dec-09	Average Rent Dec-08
Amherst	307	67	$162	$151
Birch Hill	217	73	198	201
Birchlee Estates	208	42	203	200
Cairdeil Estates	160	37	165	165
Cowan Place	56	50	163	158
Enfield Estates	56	10	200	200
Fairview Estates	131	131	301	301
Glen Aire Estates	266	130	186	186
Greenhill Estates	107	30	206	200
Heather Estates	217	72	190	190
Kent Drive	50	10	151	139
Maple Ridge Park	160	160	234	234
Mountainview Estates	353	168	205	204
Silver Birch Estates	65	16	181	185
Valley View Hills	195	50	172	171
Nova Scotia Total	**2,548**			

New Brunswick	Sites	Acres	Average Rent Dec-09	Average Rent Dec-08
Burton	91	32	$216	$207
Campers City (1)	224	61	154	125
Crown & Currie Estates	176	140	228	228
Kent & Bayview	148	123	140	140
Park P'Tiso	86	18	152	152
Pine Tree	826	260	239	241
Pine Valley	100	15	200	202
Riverview	109	72	210	210
Tamarak	419	75	227	218
White Frost Estates	211	51	194	193
New Brunswick Total	**2,390**			

Alberta	Sites	Acres	Average Rent Dec-09	Average Rent Dec-08
Lynwood Estates	110	18	$346	$345
Evergreen Village	73	11	359	341
Hillpark	136	18	329	320
Alberta Total	**319**			

Saskatchewan	Sites	Acres	Average Rent Dec-09	Average Rent Dec-08
Sunset Estates	247	77	$312	$310
Saskatchewan Total	**247**			

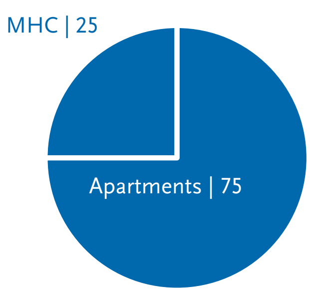
Newfoundland	Sites	Acres	Average Rent Dec-09	Average Rent Dec-08
Lakeview Court	86	13	$158	$150
Sunset Parkway	84	43	150	150
Newfoundland Total	**170**			

British Columbia	Sites	Acres	Average Rent Dec-09	Average Rent Dec-08
The Poplars	130	36	$364	$349
British Columbia Total	**130**			

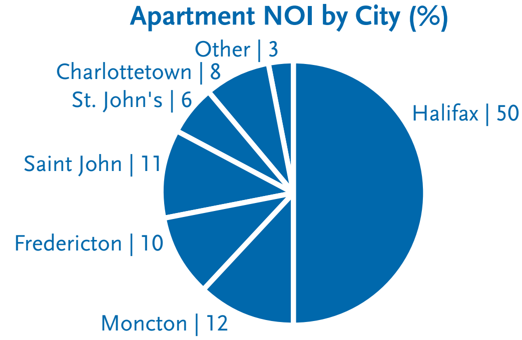
	Sites	Acres	Average Rent Dec-09	Average Rent Dec-08
MHC Total	**9,290**	**3,217**	**$221**	**$216**

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

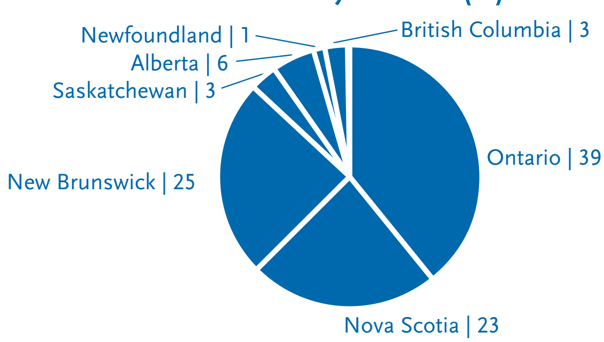
NOI by Asset Class (%)



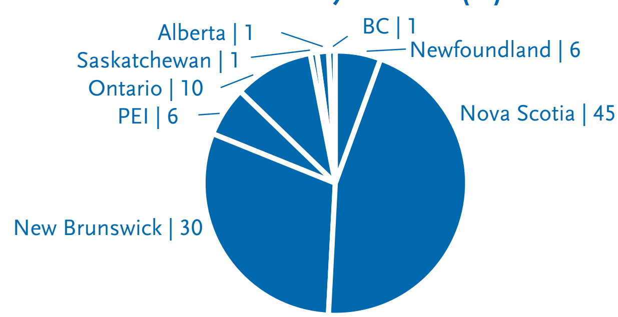
Apartment NOI by City (%)



MHC NOI by Province (%)



Total NOI by Province (%)



Management's Discussion and Analysis | Table of Contents

Overview of the Structure of the MD&A

The following management's discussion and analysis ("MD&A") has been prepared by management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the years ended December 31, 2009 and 2008. These documents, along with the Company's 2009 Annual Information Form are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at February 26, 2010.

Forward-looking Statements

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

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

Non-GAAP Measures

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

- Net operating income (NOI) is calculated by the Company as income from property operations plus income from home sales. The use of NOI when referring to a particular segment is calculated as revenue less costs for that segment.
- Funds from operations (FFO) are calculated by the Company as net loss plus depreciation and amortization, stock compensation, non-cash debenture interest, less gains on debt retirement and future income tax recovery.
- Same store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2009 and 2008 (95% of the portfolio).
- Capitalization Rate (Cap Rate) is the rate calculated by dividing the forecasted net operating income from a property by the property's purchase price.

Overview of Killam Properties

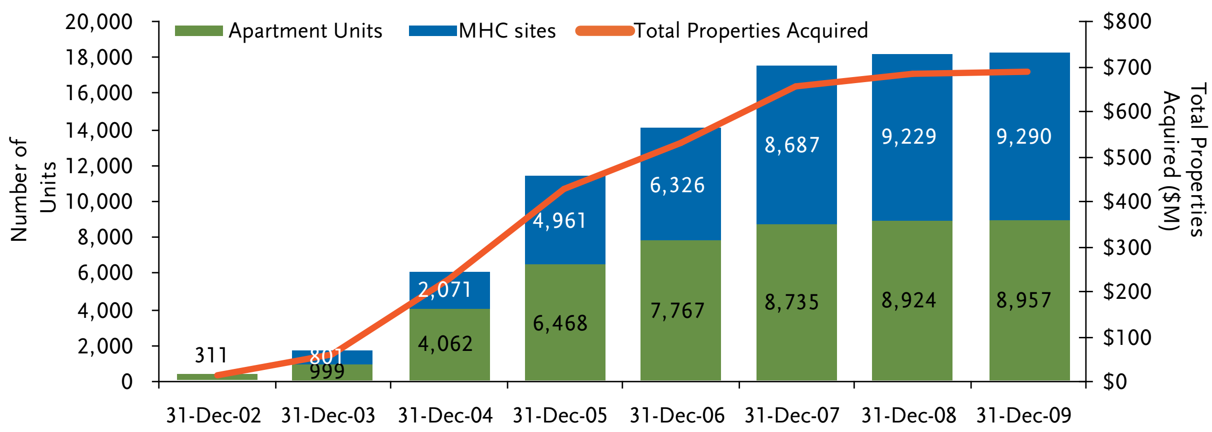
Killam Properties Inc., based in Halifax, Nova Scotia, is one of Canada's largest publicly traded residential landlords, owning and operating properties across the country. Killam was started in 2000 based on the recognition of an opportunity to create value through the consolidation of apartments in Atlantic Canada and manufactured home communities (MHCs) across Canada. From the first property acquisition in 2002, management has grown the Company by investing $800 million in the Canadian rental market. As at the end of 2009, Killam owned and operated 173 properties having a combined total of 18,247 units.

Killam operates in two distinct rental segments, the first being the ownership and management of multi-residential apartment buildings, representing approximately 75% of NOI from rental operations. The second segment is the ownership, management and expansion of MHCs, also referred to as land lease communities, or trailer parks. In conjunction with the MHC segment, in 2006 Killam began acting as a retailer in selling new manufactured homes into its communities.

Dollar amounts in thousands (except as noted)

The graph below highlights Killam's growth by unit count and investment over the last eight years.

Historic Growth in Units and Investment



Atlantic Canada's Dominant Apartment Landlord

Over the last seven years Killam has succeeded in consolidating a significant apartment portfolio in Canada and has achieved a 11.7% market share of the apartment units in Atlantic Canada's six largest cities.

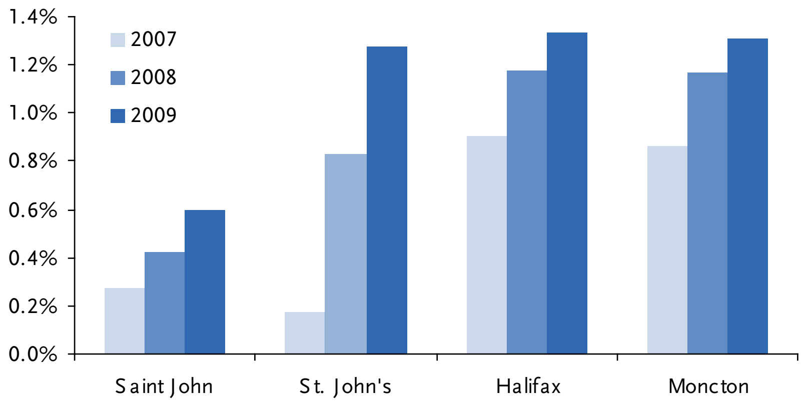
The following table summarizes Killam's apartment investment by market:

	Units	Number of Properties	Market Share %	% of Apartment NOI
Halifax, NS	4,073	44	10.3%	50.2%
Moncton, NB	1,088	21	10.9%	12.0%
Saint John, NB	1,143	13	13.2%	10.6%
Fredericton, NB	983	13	14.3%	9.7%
Charlottetown, PE	638	12	16.4%	8.2%
St. John's, NL	584	8	16.2%	7.3%
Other	448	7	N/A	2.0%
Total	8,957	118		

Atlantic Canada is home to 2.3 million people, approximately 40% of whom live in the six largest cities. The urbanization trend is strong across Atlantic Canada. The net change in population in Killam's core markets that are measured separately by Statistics Canada are shown in the following graph. Over the last five years these cities have experienced increased population growth, driven by urbanization and immigration.

Atlantic Canada's stable economy continues to draw people to the region. Statistics Canada reported in December 2009 that during the third quarter of 2009, Newfoundland, Nova Scotia and New Brunswick all achieved the strongest population growth since 1982, 1998 and 1991, respectively. These increases were attributable to both interprovincial and international migration.

% Population Growth



Source: Statistics Canada

Looking forward, Killam expects to see continued population and economic growth in its core Atlantic Canadian markets. Management expects Halifax, Moncton and St. John's to continue to lead the Atlantic Canada market over the next few years. As the largest city in Atlantic Canada, Halifax continues to attract a diverse population, both from rural areas of Nova Scotia, and from immigration. Moncton, as the most populous city in New Brunswick, has continued to have positive economic development and posted the highest in-migration of all regions in New Brunswick in 2009. The city's bilingual population base continues to attract both French and English residents to the region. St. John's, Newfoundland has also shown strong economic growth, prompted by offshore investments. We expect to see increased investment and job growth continue to drive positive net migration to Newfoundland's largest city.

Saint John, New Brunswick has benefited from energy projects over the last five years such as the ongoing refurbishment of the Point LePreau nuclear plant ($1.4 billion) and Brunswick Pipeline's extension to Maine. Most recently, a $220 million investment was made to Irving Oil's Saint John refinery.

Consolidation of Apartments in Atlantic Canada

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

During the period 2005 to 2007 there was capitalization rate compression in Killam's core markets, a trend experienced throughout Canada. As a result, the regional discrepancy in capitalization rates for quality assets has become less dramatic and assets in Halifax trade at yields comparable to most other major Canadian cities.

During 2008 and 2009 cap rates in Atlantic Canada have remained stable, based on the transactions that have been completed and general market sentiment. Low bond yields, access to CMHC financing and demand for multi-family residential properties have all contributed to these low cap rates. The Halifax market appears to be trading at rates in line with many of Canada's larger cities. Cap rates in other Atlantic Canadian cities are generally marginally higher than in Halifax.

We Have Built a Solid Infrastructure

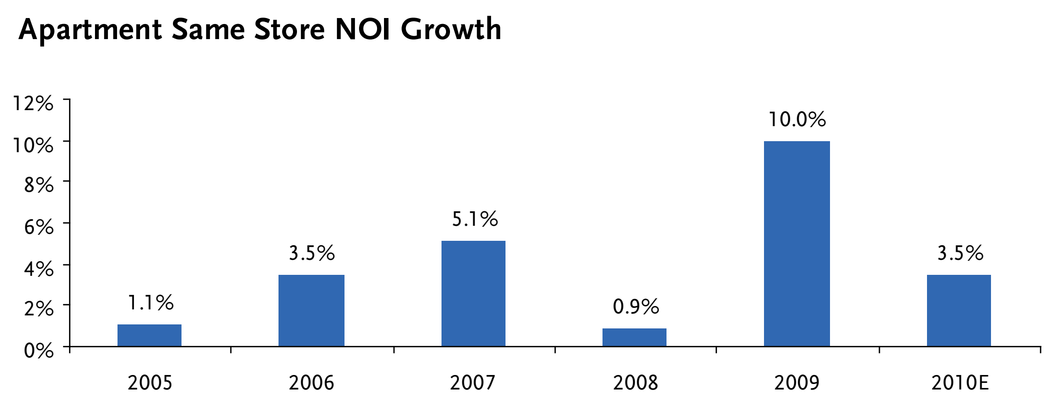
Killam's operational platform can support a larger and more geographically diverse portfolio. In addition to a head office in Halifax, Killam has regional offices in Saint John, Fredericton, Moncton and Charlottetown. Property management is handled internally for all apartment locations, with the exception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

Management continues to see opportunities to acquire properties in Atlantic Canada as well as entering into the Ontario market with apartment acquisitions. Presently, 12% of Killam's consolidated NOI from rental operations is generated outside Atlantic Canada. Management plans to increase this percentage by acquiring apartments in other markets, with a specific interest in Ontario, especially Ottawa, the Greater Toronto Area and the Kitchener/Waterloo area. Further comments on plans to increase investment outside Atlantic Canada are provided in the strategy section.

Increasing the Value of the Apartment Portfolio through NOI Growth

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

A key measure of Killam's success is the ability to realize improved profitability from same store NOI growth. The same store NOI growth for apartments over the last five years, along with management's expectation for 2010, is shown below. The Company has been successful in achieving NOI growth over the last five years based on a combination of increased revenue and cost management. The higher than average growth in 2009 was attributable to rental increases, occupancy improvements and lower energy costs.



Rent Increases Driven by the Market Rather Than Regulation

Killam is generally able to move rents to market on an annual basis. PEI is the one province in Atlantic Canada with rent control, and this represents only 7.7% of Killam's apartment units. The Company analyzes each property on a regular basis, considering its general market environment and vacancy, to evaluate the ability to increase rents for both existing tenants and on turnover. The ability to increase revenue is important in generating NOI growth. Over the last two years, Killam has increased rents by an average of 2.4% and 3.2% in 2008 and 2009, respectively. Management expects to increase same store apartment revenue an average of approximately 3% to 4% in 2010. The majority of this increase is expected to come from higher rents, as occupancy continues to be approximately 98%. As noted, occupancy plays a key roll in determining Killam's ability to raise rents.

Managing Costs

Managing costs is another key component in generating NOI growth. Management is able to control approximately 40% of operating expenses including labour costs and repairs and maintenance. The remainder of operating costs including utilities and property taxes are less controllable as the cost of the commodity or service is generally less flexible, although Killam is diligent to control consumption of water, electricity and fuel. Energy costs represented approximately 26% of Killam's apartment operating costs in 2009. Killam's apartments are heated with a combination of oil (28%), natural gas (35%) and electricity (37%). Heating costs for electrically heated units are generally paid by the tenant directly. Volatile oil and natural gas prices have an impact on Killam's ability to control these expenses. To mitigate this volatility the Company is active in energy conservation initiatives and in monitoring its energy usage. Killam does, at times, use hedging strategies to decrease price uncertainty.

Surplus Land

Management has identified approximately 17 acres of development land associated with Killam's current Halifax portfolio. Killam has the opportunity to realize value associated with this surplus land through sales to third parties or through development, and evaluates opportunities on a continuous basis. Killam is actively pursuing the development of new apartment buildings in Halifax, Fredericton and St. John's.

Dollar amounts in thousands (except as noted)

Manufactured Home Communities Offer Diversification and Stability

In addition to acquiring apartments, Killam has also focused on building a portfolio of MHCs across Canada and is the second largest owner of MHCs in Canada. Killam acquired its first community in 2003, and as at December 31, 2009 owned 55 communities across seven provinces, with a total of 9,290 rentable sites.

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

	Sites	Number of Communities	% of MHC NOI
Ontario	3,486	23	39.3%
Nova Scotia	2,548	15	23.3%
New Brunswick	2,390	10	24.4%
Alberta	319	3	5.4%
Saskatchewan	247	1	3.3%
Newfoundland	170	2	1.3%
British Columbia	130	1	3.0%
Total	9,290	55	

How the MHC Business Works

With MHCs, Killam owns the land and infrastructure supporting each community and leases the lots to the tenants, who own their own homes and pay Killam a monthly rent. In addition to lot rent the tenant may have a mortgage payment to a financial institution for their home. The average rent in Killam's MHC portfolio is $221/month, which offers great value and affordability to the tenant. The home owner is responsible for property taxes based on the assessed value of their home and Killam is responsible for the property tax on the land.

MHCs require less recurring capital investment and deliver a more predictable and stable cash flow than apartments. MHC homeowners are responsible for the repair, maintenance and operating costs for their homes, which removes significant variable costs that are typically borne by Killam for apartments. The operating profit margin in Killam's MHC business averaged 64.7% over the last two years, compared to 57.0% for apartments.

MHCs enjoy a stable tenant base, with consistently strong occupancy of approximately 99%. Should a tenant choose to leave a community, they sell their home, with the home typically remaining on the site and rent collection continuing uninterrupted from the new homeowner, who Killam approves as part of the sale process.

Consolidation of MHCs

Management identified an opportunity to consolidate the MHC market at the time that Killam was founded, recognizing that it was an overlooked asset class in Canada. Traditionally these assets had been held by individuals with very little consolidation activity in the market, resulting in higher cap rates and the ability to generate attractive returns. During the period from 2005 to 2007, following an increase in interest and activity in this asset class from both private and public investment, there had been cap rate compression in the MHC sector. During 2008 and early 2009 management noted an increase in the MHC cap rates of approximately 100-150 basis points. The cap rates range widely for this asset class, impacted by location and quality, but have typically traded at cap rates between 6% and 9% over the past few years.

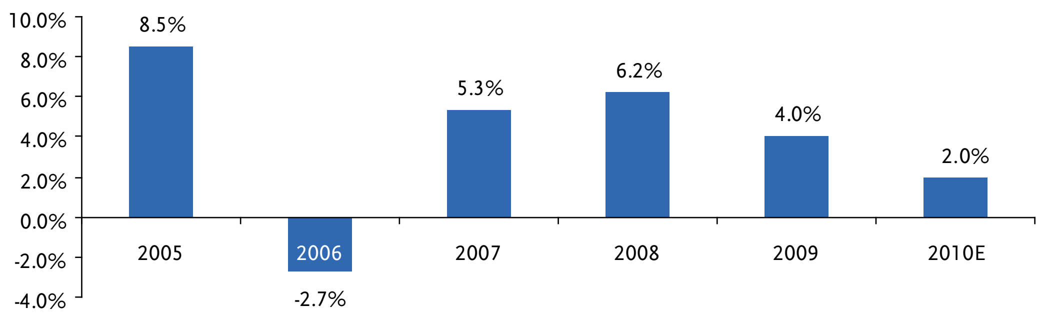
Increasing the Value of the MHC Portfolio Through NOI Growth

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

Management measures success in improving profitability through same store NOI growth. MHCs have little exposure to energy costs, resulting in stable operating costs, even in an environment of volatile natural gas and oil prices. Same store NOI growth for MHCs over the last five years, along with the expectation for 2010, is shown in the following graph:

Dollar amounts in thousands (except as noted)

MHC Same Store NOI Growth



MHCs fall under the same provincial regulations as apartments. Ontario and British Columbia are the only two provinces where Killam owns MHCs that have rent control. The allowable rent increase for renewing MHC tenants in Ontario and British Columbia were the same as for apartments in 2009, at 1.8% and 3.7%, respectively. In all other provinces where Killam owns MHCs, management can increase rents to market. Allowable rent increases for renewing tenants in Ontario and British Columbia in 2010 are 2.1% and 3.2%, respectively. Higher rent increases are allowed for new tenants entering the communities.

The most significant costs to operate MHCs are water, land property tax and general repairs and maintenance to the water and sewer infrastructure. Killam's experience with MHCs has shown that the largest variable expenses are costs related to the water and sewer infrastructure. The majority of other costs have little variability. Killam experienced higher repair and maintenance costs related to water main breaks in 2006, impacting same store NOI growth that year.

Expansion Opportunities for MHCs

Killam's MHC portfolio includes a total of 255 acres of land available for future expansion, or potential sub-division and sale to third parties.

	Estimated Future Expansion Sites	Acres Identified for Expansion Sites
Ontario	480	117
Nova Scotia	170	95
Saskatchewan	120	20
New Brunswick	120	23
Alberta	-	-
Newfoundland	-	-
British Columbia	-	-
Total	890	255

Where excess land, demand and zoning allows, management expects to expand the number of rentable sites. Management has identified 13 of its 55 communities where future expansion is expected, totaling 890 sites.

Over the last four years Killam has developed an additional 225 sites in seven communities, including 59 in 2009, and has sold 118 homes to date in those expansions. Killam expects to develop new sites on its existing MHC properties as demand for new homes supports expansion costs.

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

Home Sales

Killam acts as a retailer for home manufacturers to supply homes to its communities, both to existing and expanded sites. The houses are built in a manufacturing facility and delivered by road to the sites. Homes are available in a variety of sizes and layouts and typically sell between $90,000 and $185,000, with the higher sales prices usually in Ontario and Western Canada. Management expects to net $12,000 to $20,000 profit per home sale, which, as noted earlier, offsets a portion of the capital investment to expand the new sites. Annual new home sale levels are dependent on Killam's site expansion program and the overall economic environment. Management continually monitors sales activities in each market and based on current information anticipates 40 to 50 homes sales in 2010.

Strategy and Objectives for Growth

Killam's business objectives are to:

- **own a portfolio of multi-family residential real estate properties and manufactured home communities,**
- **increase positive cash flow over time, and**
- **increase the underlying net asset value of its properties.**

The strategy and objectives for Killam's two rental segments are highlighted below.

Apartment Strategy and Objectives

- **The long-term vision is to own and operate a geographically diverse portfolio of apartments.**
- **The strategy is to continue to grow the value and size of the apartment portfolio.**

To meet our strategy and objectives management will focus on the following:

Consolidation in the Canadian Apartment Market

Management plans to continue to grow the apartment portfolio through accretive acquisitions, with an increased focus in Ontario. Killam's acquisition activity has varied from a high of $200 million in 2005 to a low of $3.0 million in 2009. The investment in both 2008 and 2009 was less than previous years in response to the market uncertainty. Management has been actively exploring acquisition opportunities and expects to invest in apartment acquisitions in 2010 and beyond.

Killam's portfolio has generally been built through the accumulation of smaller acquisitions. Management recognizes many benefits in growing this way, including the ability to readily integrate a property, and the limited downside risk any one purchase may have. At the same time, management realizes that there may be opportunities to grow at a faster pace through the acquisition of a sizable portfolio.

Geographic Diversification

Geographic diversification in the apartment segment is a priority for Killam. Today, 100% of Killam's apartment NOI is generated in Atlantic Canada. Within the next three to five years management would like Atlantic Canada to represent 50% of the apartment NOI as the asset base is expanded with acquisitions in other areas of the country.

Killam expects to continue buying in Atlantic Canada, but on a selective basis. The current market share in Atlantic Canada is approximately 12%. The maximum market share management foresees Killam reaching is 15% for this region.

Growth in Same Store NOI

Killam is focused on improving the performance of its current portfolio through annual increases to rents, stability of occupancy and expense management. Improving the profitability of the portfolio is expected to lead to higher valuations for the assets in a stable cap rate environment.

MHC Strategy and Objectives

- **The long-term vision is to be one of the dominant owners and operators of MHCs in Canada.**
- **The MHC strategy is to continue to grow the value and size of the MHC portfolio.**

To meet our strategy and objectives management will focus on the following:

Consolidation

Management plans to grow the portfolio through acquisitions, with a primary focus in Ontario and Western Canada. With growing populations and the need for affordable housing alternatives, Killam believes there are long-term benefits from focusing in these areas.

Expand Killam's Current Portfolio

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

Maximize Earnings and Cash Flow Potential on Current Portfolio

Management is focused on increasing the value of Killam's current portfolio. This will be achieved through same store NOI growth, MHC expansions and new home sales.

Setting and Meeting Targets

Key Performance Drivers

Key Objectives	Key Performance Drivers	Key Performance Indicators
Consolidation	**Canadian Real Estate Market** - *Killam's ability to purchase accretive acquisitions will depend on the ability to source properties at accretive prices.* **Access to Capital Markets** - *Acquisition may be dependent on the ability to raise equity in the capital markets.* **Access to Debt Markets** - *Killam typically finances 65% to 75% of each acquisition with mortgage debt. The inability to access debt at attractive rates would impact Killam's ability to complete accretive acquisitions.*	Portfolio Growth Asset Growth Debt to Gross Book Value Average Cost of Debt
Geographic Diversification	**Ability to Source Product** - *Killam will generally rely on independent brokers to source apartments outside Atlantic Canada. The ability to enter markets outside Atlantic Canada will depend on relationships with brokers and sellers, and the ability to acquire at accretive prices.*	NOI by Region
Grow Same Store NOI (Apartments)	**Supply and Demand Balance** - *A change in balance between supply and demand in Killam's markets may impact vacancy levels.* **Economic Environment** - *A stronger economy should increase investment and wages, allowing for more opportunity to implement rental increases. Conversely, a weak economy may lead to rental rate sensitivity and less opportunity to raise rents.* **Energy Costs** - *Energy costs represent approximately 16% of apartment costs. Significant changes in energy prices would impact operating costs and NOI.*	Occupancy - apartments Same Store NOI - apartments NOI Margins - apartments Rental Increases FFO Growth
Growth in Same Store NOI (MHCs)	**Changes in Housing Prices** - *Significant changes to residential real estate prices could impact the demand for homes in MHCs. The affordability of manufactured homes is one of the primary demand drivers.* **Provincial Legislation** - *Rental increases in some provinces are regulated provincially, dictating the extent to which rents can be raised.*	Same Store NOI - MHC NOI Margins - MHC Rental Increases FFO Growth
Maximize Value of Excess Land	**Changes in Housing Prices** - *Significant changes to residential real estate prices could impact the demand for homes in MHCs. The affordability of manufactured homes is another primary demand driver.* **Municipal Approvals** – *Killam's expansions are dependant on receiving appropriate municipal zoning and other approvals.*	Home sales Land sales FFO Growth

Dollar amounts in thousands (except as noted)

Performance Compared to 2009 Goals and Objectives

In Killam's 2008 Annual Report management stated its 2009 goals and objectives. A review of Killam's performance in meeting these goals and objectives is included below.

2009 Goals and Objectives	Performance to December 31, 2009	Comments
Maintain debt levels between 65% to 70% of the gross book value of assets (GBV).	As at December 31, 2009, Killam's total debt to GBV ratio was 65.2%.	Goal achieved.
Grow same store NOI by 3% to 4%. • Goal was revised to 5-6% after the second quarter based on increased occupancy and reduced fuel costs. • Goal was revised to 6-7% after third quarter.	Killam achieved consolidated same store NOI growth of 8.4% for 2009.	Exceeded target. Killam's same store NOI growth has been generated by rental increases, increased occupancy rates and decreased fuel costs.
Complete 40 to 60 manufactured home sales.	Killam completed 34 home sales and home sale placements during 2009.	Target not achieved – New home sales are dependent on the overall economic environment and timing of completion of MHC expansions.

Goals and Objectives for 2010

2010 Goals and Objectives	Strategy for Achieving Goals
Grow Same Store NOI by 3% to 4%.	Implement rent increases averaging 3% for the year, maintain occupancy levels and manage expenses.
Complete $100 million to $150 million in acquisitions.	Focused in Ontario and Atlantic Canada.
Maintain debt levels between 65% and 70% of GBV of assets.	Execute on opportunities to pay down debt.
Complete 40 to 50 new home sales	Focus on sales in Ontario, Saskatchewan and newly expanded sites in Nova Scotia.

Ability to Deliver Results

Financial Resources to Fund Growth

Cash flow from operating activities is expected to meet Killam's ongoing operating requirements. However, Killam's growth plans require a supply of new capital sources. Capital sources are defined as mortgage debt, vendor mortgages and share capital equity. As at December 31, 2009, Killam had $11.0 million in cash available. The Company's cash balance at December 31, 2009 was held in bank accounts, which Killam has full access to, and does not include any instruments related to asset-backed securities or commercial paper programs.

Access to mortgage debt is essential in financing future acquisitions, and in refinancing maturing debt. Management has intentionally diversified Killam's mortgages to avoid dependence on any one lending institution. This has proven beneficial as the Company has been able to refinance maturing mortgages with banks that were previously with conduit lenders, avoiding potential liquidity pressures felt by others over the last two years. Management anticipates continued access to mortgage debt for both new acquisitions and refinancings. Access to CMHC insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee on the debt.

Dollar amounts in thousands (except as noted)

Although MHCs do not qualify for CHMC insurance, management continues to receive positive indications that mortgage debt is available for this asset class and has refinanced $16.0 million of maturing MHC mortgages for net proceeds of $3.6 million during 2009.

Acquisition Opportunities

Killam's ability to meet its external growth targets will depend on its continued ability to find accretive properties, to develop relationships with property owners, and to maintain its relationship with the lending community. As Killam prepares to enter new apartment markets outside of Atlantic Canada, management is working more extensively with independent brokers to help source properties.

Summary Financial Results

The following table presents a summary of Killam's operating performance for the year ended December 31, 2009 compared to 2008.

Year End Statistics	Consolidated	Apartments	Apartments (same store)	MHC	MHC (same store)
Operating Revenue Growth ($)	$6,446	$5,160	$3,157	$1,286	$853
Operating Revenue Growth (%)	6.6%	6.9%	4.3%	5.6%	3.8%
NOI Growth ($)	$5,210	$5,320	$4,061	$828	$579
NOI Growth (%)	9.0%	12.8%	10.0%	5.6%	4.0%
FFO (1)	$26,339				
FFO Growth ($)	$3,878				
FFO/Share (1)	$0.73				
FFO/Share Growth (%)	9.0%				
Weighted Average Shares O/S	36,247,130				
Growth in Average Shares O/S	7.9%				
Debt to GBV	65.2%				
Interest Coverage Ratio (1)	1.84x				

(1) Excludes gain on debt retirement of $638

Review of Consolidated Operations

For the years ended December 31,	2009	2008	% Change
Total operating revenue	**$104,374**	$97,928	6.6%
Property operating expenses	**41,768**	41,470	0.7%
Income from property operations	**$62,606**	$56,458	10.9%
Operating expense percentage	**40.0%**	42.3%	(5.4)%
Income from home sales	**$234**	$1,172	(80.0)%
Net operating income	**$62,840**	$57,630	9.0%
FFO	**$26,339**	$22,461	17.2%
FFO per share	**$0.73**	$0.67	9.0%

The following discussion relates to the consolidated operating results. Further detail on operating and same store results for Killam's apartment and MHC businesses is provided in the "Segment and Same Store Review" on page 33.

Total Operating Revenue and Portfolio Occupancy

Total operating revenue increased 6.6% for the year ended December 31, 2009 compared to 2008 due primarily to increased rents and improved occupancy. Total operating revenues in 2009 includes laundry and parking revenues of $1.5 million and $0.4 million, respectively (2008 - $1.5 million and $0.3 million).

Dollar amounts in thousands (except as noted)

The annualized operating revenue, including laundry and parking revenue, of the properties the Company owned as at December 31, 2009, is approximately $106.9 million based on current rents less a 3% vacancy allowance. Killam, like all real estate rental operators, is sensitive to vacancy rates, however, Killam believes its portfolio is quite defensive given its diversification in terms of multiple locations and two distinct asset types. Based on current rents, a 1% change in vacancy rates would impact the annualized rental revenue by $1.1 million.

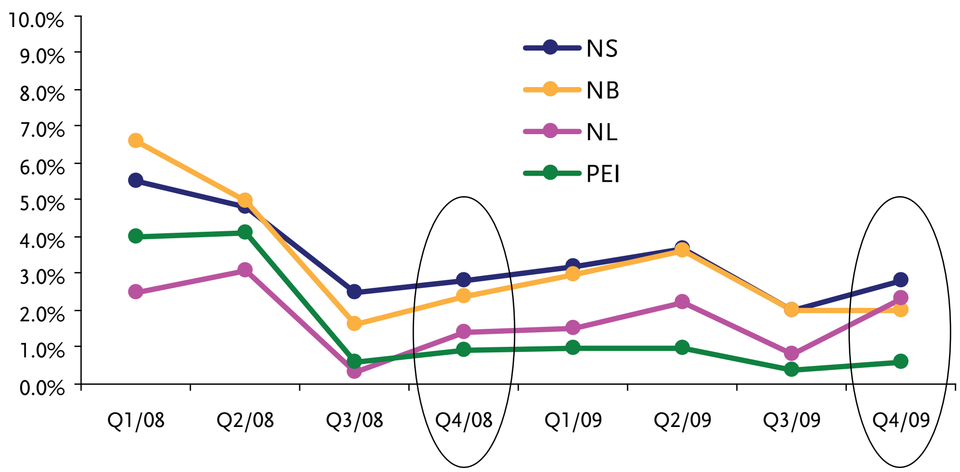
Atlantic Canada has historically experienced stable multi-residential occupancy rates. Killam outperformed the market in 2009, posting lower vacancy in October 2009 than the CMHC averages reported for the same period in their Fall Rental Market Report in all six of its core markets. The benefit of occupancy improvements achieved in the second half of 2008 resulted in improved vacancy rates during the first half of 2009. These low vacancy rates continued into the second half of 2009. Vacancy rates for the apartment portfolio as at December 31, 2009 was 2.3%. MHC vacancy has remained low at approximately 1% throughout the year.

Management believes that the overall improvement in vacancy during 2009, compared to 2008, is attributable to the increased public awareness of Killam as a quality landlord, the investment in our assets, and the attractiveness of renting in today's economic environment.

Vacancy rates displayed below represent all units available for rent at the end of the relevant quarter. At December 31, 2009, Killam had no apartment units excluded from the vacancy statistics. Excluded from the MHC vacancy statistics are 169 MHC sites that have not been previously rented, including some recently expanded sites, and 376 transient sites in Killam's seasonal resort portfolio.

Vacancy

Average Vacancy - Available Units
(By Quarter Q1/08 - Q4/09)



	2009					2008				
	Q1	**Q2**	**Q3**	**Q4**	**Avg.**	Q1	Q2	Q3	Q4	Avg.
Apartments										
Nova Scotia (NS)	**3.2%**	**3.7%**	**2.0%**	**2.8%**	**2.9%**	5.5%	4.8%	2.5%	2.8%	3.9%
New Brunswick (NB)	**3.0%**	**3.6%**	**2.0%**	**2.0%**	**2.7%**	6.6%	5.0%	1.6%	2.4%	3.9%
Newfoundland (NL)	**1.5%**	**2.2%**	**0.8%**	**2.3%**	**1.7%**	2.5%	3.1%	0.3%	1.4%	1.8%
Prince Edward Island (PEI)	**1.0%**	**1.0%**	**0.4%**	**0.6%**	**0.8%**	4.0%	4.1%	0.6%	0.9%	2.4%
Apartment average	**2.8%**	**3.4%**	**1.8%**	**2.3%**	**2.6%**	5.5%	4.7%	1.8%	2.4%	3.6%
MHCs	**0.8%**	**0.8%**	**0.9%**	**1.0%**	**0.9%**	0.8%	0.8%	0.8%	0.7%	0.8%
Portfolio Average	**1.8%**	**2.1%**	**1.3%**	**1.6%**	**1.7%**	3.3%	2.7%	1.3%	1.5%	2.2%

Killam's consolidated apartment vacancy at December 31, 2009 was 2.3%. As highlighted in the above chart, provincial occupancy rates remained consistent with the previous year. The significant decrease from Killam's reported vacancy of 3.4% at June 30, 2009 reflects the industry's seasonality regarding vacancy, with the lowest vacancy rates occurring in September each year.

Killam's vacancy rates in Nova Scotia, which represents 50.2% of the Company's apartment NOI at December 31, 2009, were consistent with the same quarter of 2008 and averaged 100 basis points better for the year ended December 31, 2009 compared to 2008. The Halifax rental market remains especially healthy with strong demand for rental accommodations.

In New Brunswick, Saint John maintained its low vacancy rate of 1.6% (2008 – 1.5%) as did Fredericton (2.3% in 2009 versus 2.2% in 2008). Moncton's vacancy rate fell to 2.2% (2008 – 3.4%) leading to a slight decrease for the province as a whole. The provincial annual average of 2.7% was a decrease of 120 basis points over 2008.

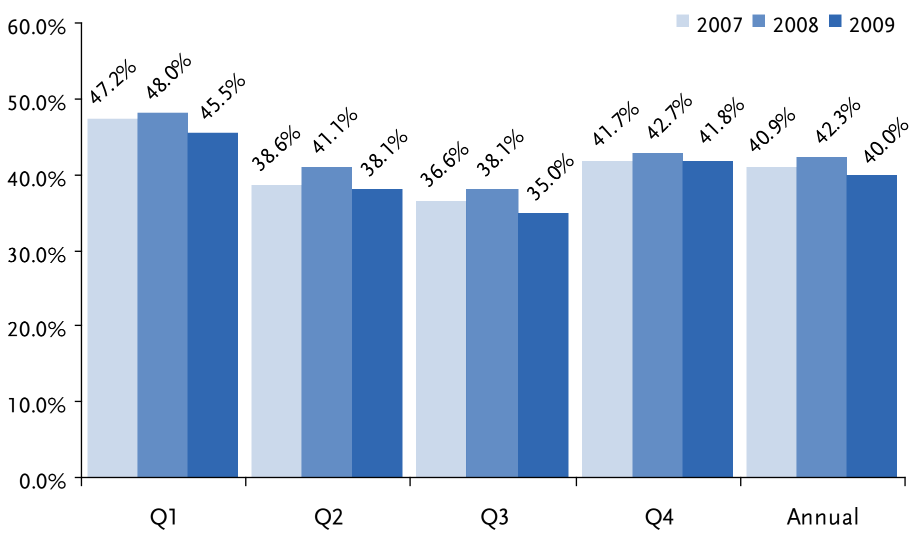
Newfoundland has performed well over the last two years maintaining low vacancy levels averaging 1.7% and 1.8% during 2009 and 2008, respectively.

Vacancy levels in PEI remain at historic lows, finishing the year at an annual average of 0.8%.

Strong occupancy has continued subsequent to year-end with apartment vacancy at 2.6% for January and 2.4% for February 2010, an improvement of approximately 20 and 50 basis points, respectively, from the same months in 2009. Management expects that occupancy will remain strong in 2010.

Operating Expenses

Total Property Operating Expense Percentage



Killam's property operating expenses as a percentage of operating revenue for 2009 decreased to 40.0% from 42.3% in 2008. This decrease was attributable to a combination of reduced fuel expense, stable operating expenses and rental increases. Property operating expenses increased 0.7% to $41.8 million during the year ended December 31, 2009 compared to 2008.

Consolidated Same Store Results[1]

Same store property NOI showed significant positive growth of 8.4% during 2009, with NOI of $59.7 million, compared to $55.0 million in 2008. Rental revenues increased 4.2% year-over-year due primarily to rental increases as well as occupancy improvements in the first half of the year. NOI was also positively impacted by a 7.9% decrease in utilities, driven by lower energy costs. This decrease more than offset the 3.0% increase in property taxes and the 1.2% increase in operating expenses. Please see detailed segmented same store analysis on pages 34 and 37.

1. Same store results reflect the operations for 164 stabilized properties that Killam has owned for equivalent periods in 2009 and 2008. The same store analysis includes 17,712 units, or 97% of Killam's portfolio. Home sales are also excluded from this analysis.

Dollar amounts in thousands (except as noted)

Segment & Same Store Review

Apartments

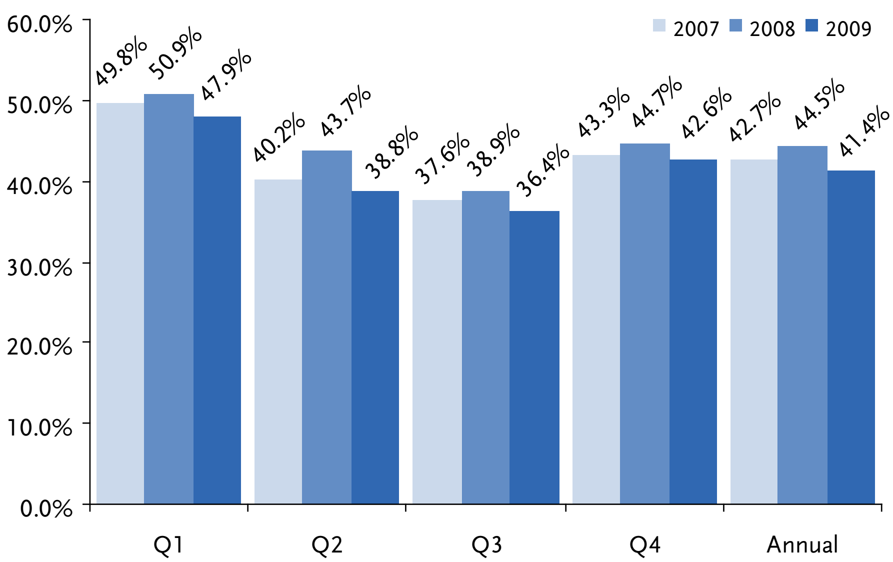
For the years ended December 31,		**2009**		2008	% Change
Rental revenue		**$80,056**		$74,835	7.0%
Other revenue		**220**		281	(21.7)%
Total revenue		**80,276**		75,116	6.9%
Property expenses					
Operating expenses	***16.2%***	**13,019**	*17.0%*	12,749	2.1%
Utilities	***14.2%***	**11,388**	*16.4%*	12,330	(7.6)%
Property taxes	***11.0%***	**8,839**	*11.1%*	8,327	6.1%
Total property expenses	***41.4%***	**33,246**	*44.5%*	33,406	(0.5)%
Net operating income		**$47,030**		$41,710	12.8%
Weighted average rent per unit		**$758**		$736	3.0%

Killam's apartment business accounted for 75.1% of income from property operations for the year ended December 31, 2009, compared to 73.9% in 2008.

The apartment portfolio generated total revenue growth of 6.9% in 2009, compared to 2008. The increase was primarily attributable to higher rents plus a small contribution from properties acquired in the third and fourth quarter of 2008. The higher average rent is largely attributable to a 3.3% increase in average rents for same store properties.

Total property operating expenses decreased in 2009 as a percentage of total operating revenue to 41.4% from 44.5% in 2008. The 310 basis point decrease is attributable to the denominator effect of increased rents, as well as reduced fuel costs. A more detailed analysis of costs is presented in the same store results.

Apartment Operating Expense Percentage



Dollar amounts in thousands (except as noted)

Same Store Results - Apartments

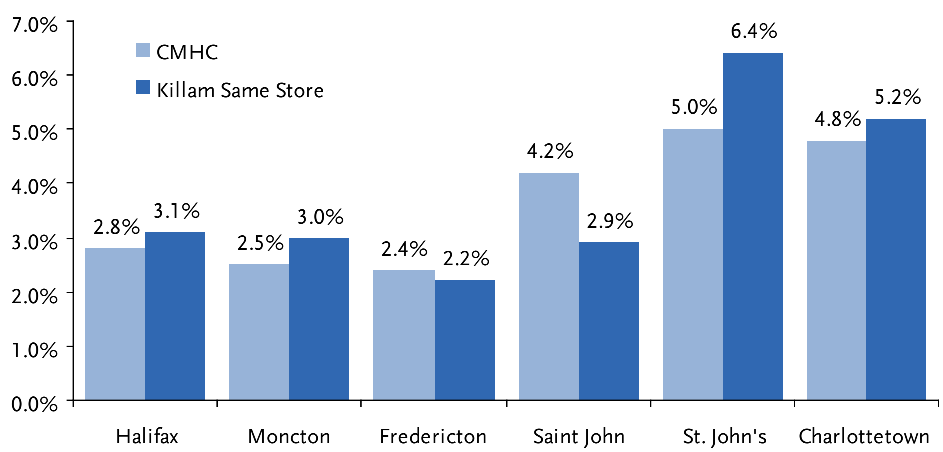
For the years ended December 31,		**2009**		2008	% Change
Rental revenue		**$76,418**		$73,233	4.3%
Other revenue		**214**		242	(11.6)%
Total revenue		**76,632**		73,475	4.3%
Property expenses					
Operating expenses	***16.3%***	**12,517**	*17.0%*	12,507	0.1%
Utilities	***14.4%***	**10,988**	*16.5%*	12,150	(9.6)%
Property taxes	***11.0%***	**8,455**	*11.2%*	8,207	3.0%
Total property expenses	**41.7%**	**31,960**	44.7%	32,864	(2.7)%
Net operating income		**$44,672**		$40,611	10.0%
Weighted average rent per unit		**$750**		$726	3.3%

Killam's same store apartment portfolio experienced NOI growth of 10.0% in 2009 as total revenues were up 4.3% and expenses decreased 2.7%.

Revenue growth of 4.3% year-over-year was attributable to increased average rents of 3.3% and occupancy improvements. Demand for apartments remains strong in Atlantic Canada, allowing for an average rental growth ahead of 2008 (2.4%), when the Company's revenue focus was based more on improving occupancy levels.

The following chart highlights Killam's rent increases (from December 2008 to December 2009) compared to the average rent increases for each market as surveyed by CMHC (from October 2008 to October 2009). CMHC rental increases are based on the same properties being surveyed for both years.

Rental Increases



Killam expects to be able to achieve rental increases on its same store apartment portfolio of approximately 3.0% for 2010.

Expenses

Killam's apartment same store utility costs decreased 9.6% during 2009, compared to 2008. Included in utility costs are electricity, natural gas and heating oil costs.

For the years ended December 31,	**2009**	2008	% Change
Natural gas and oil	**$ 4,990**	$ 6,461	(22.8)%
Electricity	**3,454**	3,255	6.1%
Water	**2,484**	2,400	3.5%
Other	**60**	34	76.5%
Total utilities	**$10,988**	$12,150	(9.6)%

Dollar amounts in thousands (except as noted)

Natural gas and oil costs represented 45% of total utility costs in 2009, and 16% of total property operating expenses. Killam's apartments are heated with a combination of electricity (37%), natural gas (35%) and heating oil (28%). Apartment units heated with electricity are generally paid directly by the tenant, with Killam responsible for common area costs. Heating costs are included in rents for the units heated with natural gas and heating oil, the cost of which decreased for both in 2009.

Killam's cost of natural gas decreased by approximately 32% during 2009. The weighted average cost during 2009 in Nova Scotia and New Brunswick were $8.94/Gj and $12.94/Gj respectively, compared to $12.58 and $18.42 during 2008. Natural gas is relatively new to Atlantic Canada and the price differences between provinces reflect different delivery rate structures. The delivery rates in New Brunswick are based on market conditions and are structured to translate into a set percentage savings when compared to heating oil costs. In Nova Scotia, costs are based on a cost recovery model, a more common approach to rate setting.

The cost of natural gas in 2009 converts to an equivalent oil cost of $0.34 per litre in Nova Scotia and $0.50 per litre in New Brunswick. This compares favourably with Killam's weighted average cost per litre of oil of $0.51 in 2009, a 35% decrease from the cost of oil in 2008.

In 2009 Killam hedged approximately 35% of oil and 55% of natural gas exposure with fixed rate forward contracts. The Company's natural gas and oil savings were partially offset by the settlement of these contracts which increased the total cost of utilities by $1.0 million in 2009. Killam may continue to use swaps to manage its exposure to volatile commodity markets. Approximately 20% of the budgeted oil and 10% of budgeted natural gas consumption levels in the first quarter of 2010 are fixed with swap contracts. The Company has no other swap contracts outstanding.

Outside of heating costs, Killam experienced increased electricity and water charges in 2009, due to increased rates. Due to pressure on utility price increases, Killam continues to maximize its energy efficiency programs. During 2009 solar panels were installed at 59 Glenforest Drive and upgrades were made to the existing solar panels at Quinpool Towers. Two wind turbines have been installed at Mountainview MHC in Halifax (a 6 kW turbine is operational and a 50 kW turbine was completed in 2010). In addition, Killam has installed 4,000 water saving kits in its apartments during 2009 and will be installing real-time water monitoring systems in a number of larger buildings in 2010 to closely track consumption and identify leaks.

MHCs

For the years ended December 31,		**2009**		2008	% Change
Rental revenue		**$23,843**		$22,619	5.4%
Other revenue		**255**		193	32.1%
Total revenue		**24,098**		22,812	5.6%
Property expenses					
Operating expenses	***21.8%***	**5,239**	*21.2%*	4,846	8.1%
Utilities	***9.0%***	**2,165**	*9.4%*	2,134	1.4%
Property taxes	***4.6%***	**1,118**	*4.7%*	1,084	3.1%
Total property expenses	**35.4%**	**8,522**	35.3%	8,064	5.7%
Net operating income		**$15,576**		$14,748	5.6%
Weighted average rent per unit		**$221**		$216	2.3%

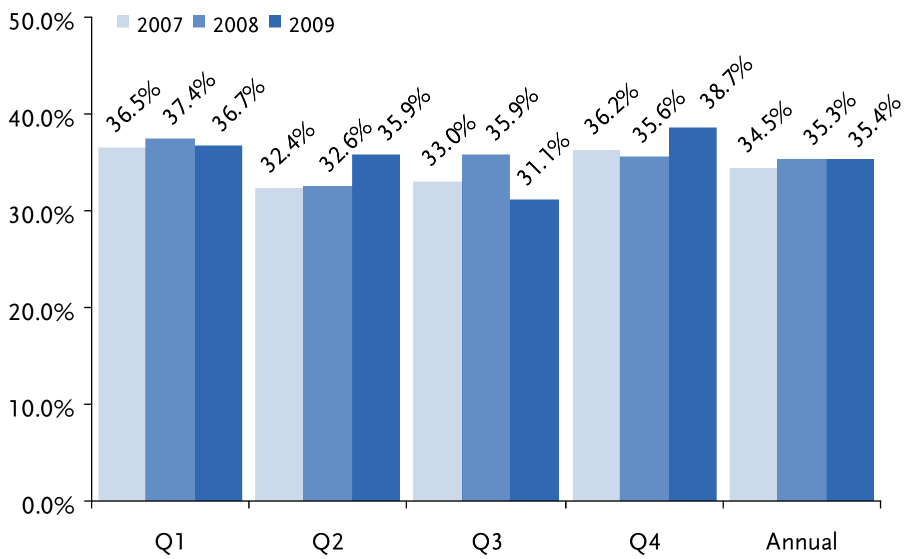
Killam's MHC business accounted for 24.9% of earnings from property operations during 2009 (26.1% in 2008). Revenue from the MHCs increased by $1.3 million, or 5.6%, from 2008, due primarily to rental increases at same store properties ($0.8 million) and increased seasonal revenues.

Total property expenses were consistent at 35.4% of MHC revenue in 2009, compared to 35.3% in 2008. Operating expenses as a percentage of revenue increased 60 basis points compared to 2008. The increase related to seasonal park opening and repair costs for a property purchased in July 2008. Seasonal parks are more labour intensive at the beginning of the season as well the properties required a number of deferred maintenance items be completed in the spring of 2009.

Utility costs as a percentage of revenue fell 40 basis points as Killam was able to manage these costs effectively in 2009. Property taxes as a percentage of revenue were consistent at 4.6%. Nova Scotia capped property tax assessments on MHCs resulting in reduced assessments for 2009. However, this reduction was offset by increases in other provinces.

Dollar amounts in thousands (except as noted)

MHC Operating Expense Percentage



MHCs - Segments

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

Seasonal communities are more labour intensive than traditional MHCs, which is reflected in higher operating costs. Property operating expenses represented 49.2% of revenues in 2009, compared to 33.4% for Killam's traditional MHCs. Salaries are the largest expense for the segment, equal to 22.9% of revenue in 2009, compared to 6.3% for traditional MHCs. Other operating costs are also higher for seasonal communities, which offer more services and amenities than Killam's traditional MHCs, including swimming pools, beach front access, and general stores.

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

For the year ended December 31, 2009		Seasonal Communities		Traditional MHCs	Total
Rental revenue		$2,935		$20,908	$23,843
Other revenue		114		141	255
Total revenue		3,049		21,049	24,098
Property expenses					
Operating expenses	*40.0%*	1,221	*19.1%*	4,018	5,239
Utilities	*4.6%*	141	*9.6%*	2,024	2,165
Property taxes	*4.6%*	139	*4.7%*	979	1,118
Total property expenses	*49.2%*	1,501	*33.4%*	7,021	8,522
Net operating income		$1,548		$14,028	$15,576

Dollar amounts in thousands (except as noted)

For the year ended December 31, 2008		Seasonal Communities		Traditional MHCs	Total
Rental revenue		$2,042		$20,217	$22,619
Other revenue		160		33	193
Total revenue		2,562		20,250	22,812
Property expenses					
Operating expenses	*42.3%*	1,084	*18.6%*	3,762	4,846
Utilities	*7.3%*	187	*9.6%*	1,947	2,134
Property taxes	*3.9%*	99	*4.9%*	985	1,084
Total property expenses	*53.5%*	1,370	*33.1%*	6,694	8,064
Net operating income		$1,192		$13,556	$14,748

Total property expenses for Killam's seasonal communities as a percentage of revenue have decreased in 2009 as the Company improved its operational effectiveness. Management is pleased with improvement in the return on the seasonal communities as this is a relatively new business for Killam.

Same Store Results – MHC

For the years ended December 31,		**2009**		2008	% Change
Rental revenue		**$22,862**		$22,063	3.6%
Other revenue		**222**		168	32.1%
Total revenue		**23,084**		22,231	3.8%
Property expenses					
Operating expenses	***21.2%***	**4,896**	*21.1%*	4,692	4.3%
Utilities	***9.2%***	**2,112**	*9.3%*	2,072	1.9%
Property taxes	***4.7%***	**1,087**	*4.8%*	1,057	2.8%
Total property expenses	**35.1%**	**8,095**	35.2%	7,821	3.5%
Net operating income		**$14,989**		$14,410	4.0%
Weighted average rent per unit		**$225**		$221	1.8%

Killam's same store MHC portfolio experienced a 4.0% increase in NOI in 2009 as strong rental revenue growth was complimented with stable property expenses.

Rental increases and increased seasonal community activity resulted in rental revenue growth of 3.6% in 2009 versus 2008. The average rent per unit increased 1.8%, representing an increase of approximately $4 per month on the average rent of $221 at December 31, 2008. These rental increases have not resulted in an increase in vacancy. The addition of MHC sites from home sales in 2008 and 2009 contributed positively to revenue, adding $0.2 million of revenue.

Overall, same store property expenses as a percentage of revenue decreased to 35.1% in 2009 from 35.2% in 2008. The increase in operating expenses of 4.3% year-over-year related to increased salary costs at seasonal parks (offset by increased occupancies at these parks), as well as professional fees associated with Ontario tax appeals. Utility costs increased slightly by 1.9% as Killam was able to effectively control consumptions and increase charge backs to tenants.

Total property tax expense increased 2.8% as Nova Scotia capped property tax assessments on MHCs which resulted in reduced assessments for 2009, partially offsetting increases in other provinces. Property tax expense by province and the corresponding year-over-year change is presented in the following table.

For the years ended December 31,	**2009**	2008	% Change
Ontario	**$249**	$204	22.1%
Nova Scotia	**292**	314	(7.0)%
New Brunswick	**418**	415	0.7%
Newfoundland	**40**	40	— %
Other	**88**	84	4.8%
Total property taxes	**$1,087**	$1,057	2.8%

Dollar amounts in thousands (except as noted)

Home Sales

For the years ended December 31,	**2009**	2008	% Change
Home sale revenues	**$ 2,669**	$ 6,704	(60.2)%
Cost of home sales	**(2,306)**	(5,431)	(57.5)%
New home placement fees	**70**	95	(26.3)%
Operating expenses	**(199)**	(196)	1.5%
Income from home sales	**$ 234**	$ 1,172	(80.0)%

Killam completed 25 home sales and 9 home sale placements during 2009 compared to 65 home sales and 18 home sale placements in 2008. The average sale price and cost of homes sold in 2009 was $106,700 and $92,200, respectively, resulting in an average gross margin of $14,500 per home (2008 - $19,600). The decrease in gross margin per home is related to two home sales in western Canada which were sold at or below cost to reduce inventory levels as well as post-closing costs from 2008 sales. The average margin, excluding these items, would be $22,900.

Home sale operating expenses include all costs associated with marketing homes, including open houses, advertising costs, etc. Killam currently has approximately 160 lots available for new home placement. Expansion activities in 2009 included adding 59 new sites at two communities (Listowel 10 and Birchlee 49), with 47 of these sites completed in 2009 and the remaining 12 sites completed in early 2010. Homes sales on these sites began in early 2010. New home sale levels for 2010 will be dependent on the overall economic environment and credit availability for home buyers. Management continually monitors sales activities in each market and based on current information anticipates home sales for 2010 to be between 40 and 50 units.

Other Expenses

Financing Costs

For the years ended December 31,	**2009**	2008	% Change
Mortgage and loan interest	**$26,034**	$25,235	3.2%
Convertible debenture interest	**2,981**	2,964	0.6%
Subordinated debenture interest	**1,348**	1,360	(0.9)%
Credit facility interest	**56**	213	(73.7)%
	$30,419	$29,772	2.2%

Financing expenses were higher during 2009, on a gross dollar basis, compared to the prior year due to the increase in the mortgage portfolio related to refinancings. As a percentage of operating revenue, mortgage and loan interest expense in the 2009 was lower at 24.9% compared to 25.8% in 2008.

The Company manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates of its mortgages. An annualized 1% change in the interest rate on Killam's mortgage and vendor debt at December 31, 2009 would affect financing costs by approximately $5.0 million per year. However, only $48.9 million of Killam's mortgage and vendor debt matures in the next twelve months and that same interest rate change would impact Killam by only $0.5 million per annum. See further discussion regarding Killam's mortgage refinancings under the "Mortgage and Debentures Payable" section beginning on page 43. The Company's credit facility is discussed on page 45 of the MD&A.

Depreciation Expense

As a percentage of operating revenue, depreciation expense was 26.1% and 27.9% for the years ended December 31, 2009 and 2008, respectively. The percentage decrease is due to the amortization of intangibles in 2008 related to 2007 and 2008 acquisitions; this was offset slightly by Killam's capital improvements during 2008 and 2009.

Dollar amounts in thousands (except as noted)

Amortization of Deferred Financing Costs

Deferred financing amortization increased $0.2 million in 2009 compared to 2008. The 2009 expense includes the write off of financing costs on properties previously used as security for the line of credit which were replaced with mortgage financing and refinancing costs for maturing mortgages. The costs related to mortgage assumption fees, application fees and legal costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. The costs associated with the convertible and subordinated debentures are amortized over the terms of the debentures. Upon the adoption of CICA Handbook Section 3855, transaction costs are now deducted from the financial liability and are amortized using the effective interest rate method over the expected life of the related liability.

General and Administrative Expenses

For the years ended December 31,	**2009**	2008	% Change
Total	**$6,732**	$6,247	7.8%
As a percentage of total revenues	**6.2%**	6.0%	

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

As a percentage of total revenue, general and administrative expenses increased to 6.2% for the year ended December 31, 2009 versus 6.0% in 2008. The increase over 2008 relates to the implementation of an employee stock savings plan during late 2008, the issuance of stock options during 2009 and increased compensation levels. Management targets annualized general and administrative costs at approximately 6%.

Provincial Large Corporation Tax (Capital Tax)

The Company is required to pay provincial capital tax in certain provinces based on the total taxable capital invested in those provinces at year-end. Total taxable capital invested includes shareholders' equity, debentures, credit facility and mortgages on properties held outside the Company's internal trusts and is not a function of the time the capital is invested. These taxes are deductible for provincial and federal income tax purposes. In 2009, Nova Scotia and Ontario are the only remaining provinces in which Killam operates with capital taxes and these are expected to be phased out between 2010 and 2012.

Income Tax

The Company has booked a future income tax recovery for the years ended December 31, 2009 and 2008 representing the future tax benefit of the accounting loss. Killam is not currently cash taxable and does not expect to pay cash taxes in the near future. The Company has not claimed the maximum CCA allowed over the past number of years and has the ability to reduce taxable income through increasing these claims. Based on the assumption that the Company does not add to its asset base, management estimates it would take approximately four years to fully utilize these deductions and begin paying cash taxes.

Dollar amounts in thousands (except as noted)

Funds from Operations (FFO)

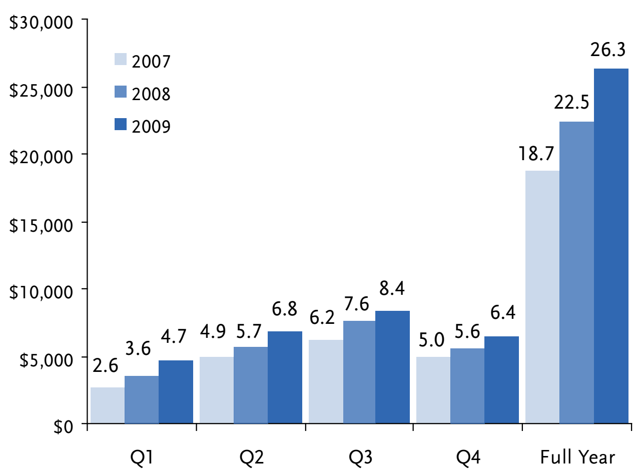
Management considers Funds from Operations (FFO) a key measurement of operating performance. FFO does not have a standardized meaning under GAAP and therefore may not be comparable to similarly titled measures presented by other public companies. Killam calculates FFO as follows:

For the years ended December 31,	**2009**	2008	% Change
Net loss	**$(1,843)**	$(5,008)	63.2%
Depreciation and amortization	**28,831**	28,712	0.4%
Non-cash debenture interest	**369**	345	7.0%
Non-cash share compensation	**450**	370	21.6%
Gain on debt retirement	**(638)**	—	— %
Future income tax recovery	**(830)**	(1,958)	(57.6%)
Funds from operations	**$26,339**	$22,461	17.3%
FFO/share	**$0.73**	$0.67	9.0%

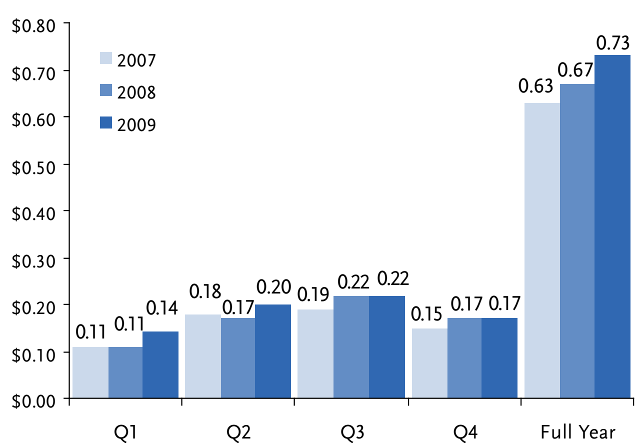
The Company's FFO continued to grow on a total dollar basis increasing $3.8 million or 17.3% during 2009 due primarily to rental increases and reduced operating and fuel costs in 2009.

FFO per share for 2009 was $0.73 versus $0.67 in 2008. The FFO per share in 2009 was impacted by the Company's share issuance on July 2, 2009. The $23.4 million of net proceeds from the offering has not yet been fully deployed. The Company continues to review acquisition opportunities.

FFO ($ millions)



FFO Per Share



Dollar amounts in thousands (except as noted)

Sources and Uses of Cash

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

For the years ended December 31,	**2009**	2008
Cash provided by operating activities	**$26,226**	$22,364
Cash (used in) provided by financing activities	**(300)**	4,862
Cash used in investing activities	**(19,299)**	(37,527)
Increase (decrease) in cash	**$6,627**	$(10,301)

The increase in cash from operating activities is attributable to the increased same store NOI compared to 2008.

Killam's net cash used in financing activities was $0.3 million in 2009. Cash inflows of $23.3 million from the issuance of common shares and the positive cash flow of $19.6 million from mortgage refinancings were offset by cash dividends of $19.2 million, regular principal debt payments of $12.6 and the repurchase of 50% of the Company's subordinated debentures due in 2013.

Cash used in investing activities decreased to $19.3 million in 2009. The decrease is attributable to fewer acquisitions in 2009. A reconciliation of cash used in investing activities is shown below:

For the years ended December 31,	**2009**	2008
Acquisitions *(including 3rd party costs)*	**$(3,253)**	$(37,650)
Capital improvements and development	**(15,171)**	(13,497)
Shares issued on acquisitions	**601**	2,000
Mortgages assumed on acquisitions	—	12,738
Net cash used for capital assets	**$(17,823)**	$(36,409)
Increase in restricted cash	**(1,476)**	(1,118)
Cash used in investing activities	**$(19,299)**	$(37,527)

Killam believes that cash generated by operations and refinancing of mortgages maturing in 2010 and 2011 will be sufficient to meet its anticipated cash requirements for operations, including dividend payments, regular principal repayments and capital requirements for the existing portfolio.

Consolidated Balance Sheet

Real Estate Assets

As at December 31,	**2009**	2008	% Change
Net book value	**$709,314**	$718,550	(1.3)%

Capital assets decreased to $709.3 million from $718.6 million, as depreciation of $27.3 million offset $15.2 million in capital improvements.

Capital Improvements

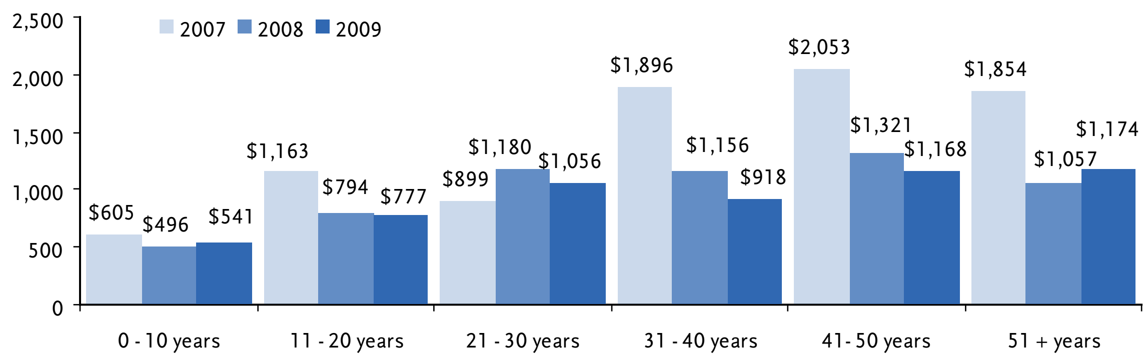
	2009			2008		
	Apts	**MHC**	**Total**	Apts	MHC	Total
Project Improvements	**$2,620**	**$2,272**	**$4,892**	$3,256	$2,347	$5,603
Suite Improvements	**3,934**	**-**	**3,934**	4,817	-	4,871
Equipment	**386**	**240**	**626**	206	253	459
Appliances	**407**	**-**	**407**	264	13	277
Furniture & Fixtures	**43**	**-**	**43**	285	1	286
Parking Lots	**29**	**-**	**20**	4	-	4
	$7,419	**$2,512**	**$9,931**	$8,886	$2,614	$11,500

The Company invested $8.8 million in project and suite improvements during 2009 compared to $10.5 million in 2008 (a 15.7% decrease). The decrease in project and suite improvements for apartments reflects the time Killam has owned the portfolio. Capital costs for Killam's apartment properties are highest in the first one to three years of ownership as necessary work is completed. After this initial investment, portfolio experience shows that the capital cost per suite decreases considerably. Killam expects to spend an annual average maintenance cap-ex of $400 per apartment unit and $100 per MHC site for properties that it has owned for over three years. These costs may be influenced by tenant turnover, market conditions, and individual property requirements, causing an annual variability in capital requirements. As well, Killam expects to spend annually $400 and $100 per unit for apartments and MHCs, respectively for revenue enhancing upgrades.

Dollar amounts in thousands (except as noted)

In addition to the timing of ownership, the age of the properties influence the annual capital investment. The following chart shows the average capital spent per unit for same store properties for each of the last three years. Same store properties represent 73%, 84% and 97% of the apartment portfolio for 2007, 2008 and 2009 respectively. As the chart highlights, the capital spend per unit is less for newer properties. This analysis excludes capital spending on major repositionings and energy projects.

Average Capital Spending Spend Per Unit By Year



In addition to capital expenditures, Killam has incurred $4.4 million in repairs and maintenance costs in 2009 (2008 - $4.3 million), including $2.9 million for the apartment portfolio and $1.5 million for the MHC portfolio (2008 - $2.9 million and $1.4 million, respectively).

Development and Energy Projects

	2009			2008		
	Apts	**MHC**	**Total**	Apts	MHC	Total
Development projects	**$-**	**$4,051**	**$4,051**	$-	$1,764	$1,764
Energy projects	**973**	**216**	**1,189**	233	-	233
	$973	**$4,267**	**$5,240**	$233	$1,764	$1,997

The development project spending relates to costs associated with MHC site expansions and redevelopment. In 2009 Killam spent $4.1 million on development projects, including $2.5 million at Birchlee in Nova Scotia, $1.1 million at Listowel and $0.3M at Golden Horseshoe, both in Ontario. The development at Bichlee represents the expansion of 49 new sites and upgrades to the existing 176 site community. At year-end 32 of the 49 sites were completed and ready for new homes. The remaining sites will be completed in the first half of 2010. The cost-to-date associated with the development of the 49 new sites was approximately $1.4 million, or $28,000 per site. The total cost associated with the expansion is expected to be approximately $1.6 million or $32,000, per site. The additional spending included development of a new entrance to the park and paving of existing sections ($0.4 million) and an upgrade to the water and waste-water systems ($0.7 million).

Killam spent $1.1 million relating to development at The Village of Listowel during 2009. The expansion included 10 new sites added in 2009 ($0.2 million), and connections to the municipal water and sewer systems ($0.9 million) which will benefit all the community's tenants and allows for the future development of 100 sites. Golden Horseshoe was expanded by 26 sites in 2008, with the final stages of the expansion completed in early 2009.

Expansion costs vary by community depending on infrastructure requirements to support new sites. Where Killam is able to sell a new home on an expanded site, the gross margin earned on the sale has the potential to offset a significant portion of the expansion cost.

Killam invested $1.2 million in energy related projects during 2009. Apartment energy project expenditures relate to the natural gas conversion of Spring Garden Terrace ($0.7 million), a solar panel installation at 59 Glenforest Drive and an upgrade to the solar energy system at Quinpool Towers, all in Halifax. The MHC energy projects included the installation of a 6 kW wind turbine at Mountainview MHC in Halifax ($0.1 million) which is operational and a $0.2 million deposit on a 50 kW turbine at Mountainview which became operational in early 2010.

Dollar amounts in thousands (except as noted)

Other Assets

As at December 31,	**2009**	2008	%Change
Prepaid property taxes	**$ 886**	$ 912	(2.8)%
Prepaid insurance	**263**	271	(3.0)%
Other prepaids/assets	**352**	521	(32.4)%
Inventory	**2,117**	2,461	(14.0)%
Deferred charges	**160**	163	(1.8)%
Goodwill	**4,500**	4,500	— %
	$8,278	$8,828	(6.2)%

Deferred charges relate to costs associated with the Company's expansion on certain vacant lands. The inventory balance of $2.1 million represents new manufactured homes that have not yet been sold as well as show homes. Goodwill presented above is the tax effect of the Company's acquisition of a property through a share purchase transaction. The off-setting liability is presented in future income taxes.

Mortgages and Debentures Payable

As at December 31,	**2009**	2008	% Change
Mortgages	**$497,816**	$478,367	4.1%
Vendor financing	**8,369**	10,692	(21.7)%
	506,185	489,059	3.5%
Less: deferred financing	**(6,105)**	(4,967)	22.9%
Total mortgages and vendor financing	**$500,080**	$484,092	3.3%
Convertible debentures	**$ 41,575**	$ 41,338	0.6%
Less: deferred financing	**(753)**	(1,045)	(27.9)%
Subordinated debentures	**9,769**	19,405	(49.7)%
Less: deferred financing	**(217)**	(568)	(61.8)%
Credit facility	—	10,600	—%
Less: deferred financing	—	(159)	—%
	$ 50,374	$ 69,571	(27.6)%
Total debt	**$550,454**	$553,663	(0.6)%
Weighted average years to maturity of mortgage and vendor debt	**4.1**	4.3	
Gross mortgage and vendor debt as a percentage of GBV	**59.2%**	59.1%	
Total gross debt as a percentage of GBV	**65.2%**	67.7%	
Interest coverage ratio	**1.84**	1.73	
Weighted average interest rate of mortgage and vendor debt	**5.2%**	5.3%	
Weighted average interest rate of total debt	**5.3%**	5.5%	

The Company's long-term debt consists largely of fixed-rate, long-term mortgage financing. In certain cases the Company will also utilize vendor-take-back mortgages as part of an acquisition. As at December 31, 2009, no mortgages or vendor debt have floating interest rates (2008 - 1.3%). Mortgages are secured by a first or second charge against the individual properties and the vendor financing is secured by a general corporate guarantee. The increase in mortgages payable from December 31, 2008 is due to the placement of mortgage financing on certain properties which had been pledged as collateral for the line of credit ($9.7 million) and the additional funds received on the refinancing of maturing mortgages ($19.5 million) less regular principal repayments.

Killam's December 31, 2009, weighted average interest rate on mortgages improved to 5.2% compared to 5.3% as at December 31, 2008. The Company's weighted average years to maturity fell slightly to 4.1 years.

Total gross debt as a percentage of gross book value (GBV) decreased to 65.2% from 67.7% at December 31, 2008 as a result of the Company's equity raise in the third quarter of 2009. GBV is defined as total assets plus accumulated depreciation and deferred financing costs which have been netted against debt. Management expects to maintain the ratio of debt to GBV to between 65% and 70%.

Dollar amounts in thousands (except as noted)

Killam is pleased to report that financing for its apartment properties remains strong. During 2009 Killam refinanced $52.2 million of maturing mortgages with new mortgages totaling $68.1 million for net proceeds of $15.9 million. Further, the weighted average interest rate for these refinancings was 4.15%, 107 basis points better than the 5.22% weighted average interest rate being replaced. Subsequent to December 31, 2009, Killam has refinanced an additional $5.5 million of maturing apartment debt with new mortgages totaling $7.6 million for net proceeds of $2.1 million. The weighted average interest rate on the new debt is 4.16%, replacing debt having a weighted average interest rate of 5.99%. The majority of apartment mortgages refinanced in 2010 are, or will be, CMHC insured.

During 2009, the Company refinanced $13.8 million of maturing MHC mortgages with new mortgages totaling $17.5 million for net proceeds of $3.7 million and fixed the interest rate on a maturing $2.2 million construction mortgage (the rate on the mortgage had previously been floating). The weighted average interest rate on the new debt is 5.87% replacing debt with a weighted average interest rate of 4.93%.

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

	Apartments			MHCs		Total	
Year of Maturity	Balance Dec 31, 2009	Weighted Avg Int. Rate %	% CMHC Insured	Balance Dec 31, 2009	Weighted Avg Int. Rate %	Balance Dec 31, 2009	Weighted Avg Int. Rate %
2010	$33,305	5.25	42.4	$15,545	5.22	$48,850	5.24
2011	45,514	5.60	17.4	5,655	5.37	51,169	5.58
2012	32,257	5.17	74.2	18,125	5.94	50,382	5.45
2013	64,097	4.57	83.7	12,653	6.23	76,750	4.84
2014	101,755	4.65	62.1	19,478	5.60	121,233	4.81
2015	33,188	5.49	11.7	20,098	5.39	53,286	5.45
2016	52,279	5.19	24.1	12,887	5.50	65,166	5.25
2017	2,945	5.57	-	11,774	5.71	14,719	5.68
2018	3,972	4.82	100.0	-	-	3,972	4.82
2019	20,658	4.94	100.0	-	-	20,658	4.94
	$389,970	5.01	52.3	$116,215	5.62	$506,185	5.15

As at December 31, 2009, approximately 52% of the Company's apartment mortgages are CMHC insured (41% of all mortgages) (December 31, 2008 – 45% and 34%, respectively). The weighted average interest rate on these CMHC insured mortgages was 4.64% as at December 31, 2009 (2008 – 4.89%).

The following table presents the NOI of properties that are available to Killam to refinance at debt maturity for 2010 and 2011, as well as VTB debt maturing during 2010 and 2011.

	Number of Properties	**NOI** *(last 12 months)*	**Principal Balance** *(at maturity)*
2010			
Apartments with debt maturing in 2010 (1)	18	$4,825	$32,589
MHCs with debt maturing in 2010	7	2,270	15,371
2010 Debt Maturities	25	$7,095	$47,960
2011			
Apartments with debt maturing in 2011 (2)	18	$6,227	$46,742
MHCs with debt maturing in 2011	5	705	5,314
2011 Debt Maturities	23	$6,932	$52,056

(1) Excludes a $0.4 million mortgage which matures in February 2010 and will be refinanced as part of another mortgage on the same property being refinanced in 2011.
(2) Includes a $0.4 million mortgage which matures in February 2010 and will be refinanced as part of another mortgage on the same property being refinanced in 2011 and $1.9 million of 2012 mortgages to be refinaced as part of other mortgages on the same property being refinanced in 2011.

Debentures

The $42.2 million convertible debentures mature in May 2012, bear interest at 6.50% and are convertible at the holders' option to common shares at a price of $12.40, any time after May 2007. The debentures are redeemable by the Company in the period from December 31, 2008 to December 31, 2010, provided that the current market value of the Company's shares at the notice date is not less than 120% of the conversion price. After December 31, 2010 the debentures are redeemable at face value. Upon maturity, the Company may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures by 95% of the current market price of the common shares in effect at the maturity date.

In December of 2009 Killam entered into an agreement with the holder of its subordinated debentures to repurchase $10 million face value of its $20 million outstanding debentures due to mature in January 2013. The securities that were retired, which were carried on the Company's balance sheet at $9.8 million (less $0.2 million of deferred financing costs) were settled for $8.9 million in cash. The transaction resulted in a $0.6 million gain, recognized in the fourth quarter. The remaining $10.0 million of unsecured subordinated debentures and warrants consist of three tranches of $2.5 million, $2.5 million, and $5.0 million and bear interest at 5.92%, 6.06% and 6.33%, respectively, and mature on January 4, 2013. The associated warrants are exercisable at $14.40, $15.20 and $12.24, respectively.

Credit Facility

The Company has a credit facility with a major financial institution that can be used to finance the Company's on-going acquisition program. The amount available under the revolving facility varies with the value of pledged assets, to a maximum of $15 million. The facility includes the option for a commitment increase, allowing Killam a one-time opportunity to increase the credit limit to $40 million. The interest rate on the debt is either prime plus 300 basis points on prime rate advances or 400 basis points over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at December 31, 2009 the Company has $1.7 million of assets pledged for the line and has no balance outstanding on the line. This facility expires in May 2010 and includes an opportunity to extend the maturity date by an additional year.

Shareholders' Equity

In July 2009, Killam closed a public share offering, on a bought-deal basis, of 4,255,000 shares, after full exercise of the underwriters' over-allotment option, to the public at a price of $5.80 per share for gross proceeds of $24.7 million.

The Company's Dividend reinvestment Plan ("DRIP") allows shareholders to elect to have all cash dividends from the Company reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to a ten day weighted average closing price of the Company's common shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration (prior to December 2009 a five day weighted average was used). For the year ended December 31, 2009, the Company issued 204,510 common shares under the DRIP with a value of $1.2 million (2008 – 343,290 common shares with a value of $2.4 million). For the year ended December 31, 2009 the average DRIP participation rate was approximately 5%.

In August 2009, the Company announced that the Toronto Stock Exchange (the "TSX") had accepted Killam's notice of intention to renew its normal course issuer bid for its common shares. Under the normal course issuer bid, Killam may acquire up to 3.1 million common shares commencing on August 22, 2009, and ending on August 21, 2010. All purchases of common shares are made through the facilities of the TSX at the market price of the shares at the time of acquisition. Daily repurchases by Killam are limited to 32,171 common shares, other than block purchase exceptions. Any shares acquired are cancelled.

For the year ended December 31, 2009, 53,600 common shares were purchased and cancelled (2008 – 225,100 common shares). The shares were purchased at an average price of $5.28 per share (2008 - $6.78 per share). The aggregate cost of the common shares purchased and cancelled for the year ended December 31, 2009 was $0.3 million (2008 - $1.5 million). For the year ended December 31, 2009, $0.2 million was recorded as a charge against share capital for the average carrying value of the common shares (2008 - $1.4 million), the remainder to contributed surplus.

Dollar amounts in thousands (except as noted)

Quarterly Results and Discussion of Q4 Operations

Summary of quarterly results

The Company realized quarter-over-quarter FFO per share growth during the first and second quarters as improved occupancy and increased rents more than offset increased operating costs. During the third and fourth quarters FFO per share was flat, as the Company issued 4.4 million additional shares in the third quarter. An eight quarter trend highlighting key operating results is shown below.

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Rental revenue	**$26,220**	**$26,808**	**$25,854**	**$25,017**	$25,190	$25,572	$23,725	$22,967
Total operating revenue	**26,308**	**26,998**	**25,983**	**25,085**	25,332	25,727	23,824	23,045
Operating expenses	**10,990**	**9,454**	**9,899**	**11,425**	10,812	9,805	9,799	11,054
Operating expense %	**41.8%**	**35.0%**	**38.1%**	**45.5%**	42.7%	38.1%	41.1%	48.0%
Home sale income	**2**	**184**	**24**	**24**	196	380	437	159
NOI	**15,320**	**17,728**	**16,108**	**13,684**	14,716	16,302	14,462	12,150
Net (loss) income	**(172)**	**597**	**(356)**	**(1,912)**	(1,693)	58	(980)	(2,393)
Per share (basic)	**(0.00)**	**0.01**	**(0.01)**	**(0.06)**	(0.05)	(0.00)	(0.03)	(0.07)
Funds from operations	**6,416**	**8,405**	**6,833**	**4,685**	5,595	7,549	5,718	3,599
Per share (basic)	**0.17**	**0.22**	**0.20**	**0.14**	0.17	0.22	0.17	0.11
Total assets	**739,373**	**752,491**	**734,525**	**739,540**	738,668	722,946	715,671	723,948
Shareholders' equity	**177,202**	**181,729**	**162,423**	**167,054**	173,193	177,741	182,436	187,072

Fourth Quarter Review

FFO was $6.4 million in the fourth quarter, up 13.8% from $5.6 million in the same quarter last year. FFO per share was $0.17, equivalent to the $0.17 earned in the same period in 2008. The increased FFO reflects a 5.0% improvement in same store NOI while the per share number was affected by the impact of the 4.3 million shares issued in the third quarter of 2009.

Same store revenue was $25.1 million during the fourth quarter, a 2.8% increase from the fourth quarter of 2008. This increase was attributable to increased rents. Both the apartment and MHC segments realized strong revenue growth of 3.0% and 2.2%, respectively.

Same store operating costs decreased 0.1% during the fourth quarter of 2009 when compared to the same quarter in 2008, as decreased fuel costs offset modest increases in other operating costs in the period. Natural gas costs decreased approximately 27% in the fourth quarter due primarily to lower commodity prices. The price of oil decreased an average of 11% quarter-over-quarter. Settlement of out-of-the money fixed rate hedge contracts for both natural gas and heating oil increased costs by $0.2 million in the quarter.

Property taxes increased quarter-over-quarter by 5.8%, compared to an annualized increase of 3.0% as the result of the finalization of property tax appeals and the impact of tax recovery billing adjustments recorded in the quarter to finalize MHC tenant's home property tax bills.

By segment, the apartments realized positive same store NOI growth in the fourth quarter, up 8.1% compared to the fourth quarter of 2008, benefiting from strong revenue growth and a reduction in fuel costs. MHC same store NOI was down 3.9% in the period, as repairs and maintenance and property taxes offset the gains in revenue.

The contribution from home sales fell, with net contributions falling $0.2 million quarter-over-quarter. G&A costs were flat quarter-over-quarter at $1.6 million.

Risk Management

Killam, like most real estate companies, is exposed to a variety of risks. These are classified between general and specific risk areas. General risks are associated with general economic conditions in the real estate sector. Specific risks focus more on credit risk, market risk, interest risk and utility and property tax risk. The following will address each of these risks in more detail.

General Risks

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

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

Environmental Risk: As an owner of real estate, Killam is subject to federal, provincial and municipal environmental regulations. These regulations may require the Company to fund the costs of removal and remediation of certain hazardous substances on its properties or releases from its properties. The failure to remediate such properties, if any, could adversely affect the Company's ability to borrowing using the property as collateral or sell the real estate. Killam is not aware of any material non-compliance with environmental laws at any of its properties. The Corporation has made, and will continue to make, the necessary capital expenditures to comply with environmental laws and regulations. Environmental laws and regulations can change rapidly, and the Corporation may become subject to more stringent environmental laws and regulations in the future.

Competition Risk: Each segment of the real estate business is competitive. Numerous other residential developers and apartment owners compete for potential tenants. Although it is Killam's strategy to own multi-family residential properties in premier locations in each market in which it operates, some of the apartments or MHCs of Killam's competitors may be newer, better located or better capitalized. The existence of alternative housing could have a material adverse effect on Killam's ability to lease space in its properties and in the rents charged and could adversely affect Killam's revenues and ability to meet its obligations.

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

Specific Risks

Credit Risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The Company currently has 18,247 rental units spread over eight provinces, each of which has a separate legal lease and therefore has no material exposure to any particular tenant or group of tenants. In addition, thorough credit assessments are conducted with respect to all new leasing and the Company also obtains a security deposit to assist in potential recovery requirements.

Supply Risk is the risk that the Corporation would be negatively affected by the new supply of, and demand for, multi-family residential units in its major market areas. Key drivers of demand include employment levels, population growth, demographic trends and consumer confidence. Any significant amount of new construction will typically result in an imbalance in supply and cause downward price pressure on rents. No signs of significant new rental construction are currently evident in Killam's existing markets that management believes would be detrimental to Killam's leasing programs.

Interest Risk is the combined risk that the Company would experience a loss as the result of its exposure to a higher interest rate environment (Interest Rate Risk) and the possibility that at the time of maturity of a mortgage the Company would be unable to renew the maturing debt either with the existing lender or with a new lender (Renewal Risk). The Company structures its debt so as to stagger the maturity dates, thus reducing exposure to any short-term fluctuations in rates. To mitigate against renewal risk, the Company uses CMHC insured mortgages for apartment financings. During 2008 and the first part of 2009, the Company has had no difficulty obtaining mortgage refinancing on maturing mortgages in both the apartment and MHC segments. In addition, Killam has been able to finance at loan-to-values of 70% to 75% . Although interest rate spreads have increased over the past year the corresponding bench mark bonds yields have fallen, resulting in interest rates on new debt well below those of the maturing debt.

Rent Control Risk is the risk of the implementation or amendment of new or existing legislative rent controls in the markets in which Killam operates, which may have an adverse impact on the Company's operations. Currently Prince Edward Island, Ontario, and British Columbia are the only provinces in which the Company operates that have rent controls. The Company believes that rent controls are not an increasing trend in its markets.

Utility and Property Tax Risk relates to the potential loss the Company may experience as a result of higher resource prices, as well as its exposure to significant increases in property taxes. Over the past few years, property taxes have increased as a result of an increase in reassessments and/or tax rates. To address this risk, Killam, along with the assistance of outside authorities, constantly reviews property tax assessments and, where warranted, appeals them.

Utility expenses, mainly consisting of oil, natural gas, water and electricity charges, have been subject to considerable price fluctuations over the past several years. Killam has the ability to raise rents on the anniversary date of the leases, subject to the overall rental market conditions, to offset rising energy and utility costs. In addition the Company fixes rates through the use of SWAP contracts for a portion of its oil and natural gas consumption to reduce the fluctuations in price.

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

Critical Accounting Estimates

The Company's accounting policies are described in Note 2 of the consolidated financial statements. The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions.

Impairment of Long-lived Assets
Under Canadian GAAP, Killam is required to write down to fair value any capital assets where the net undiscounted cash-flows from the property over the anticipated holding period exceeds carrying value. This calculation requires subjective assumptions on general economic conditions, occupancies, rental rates and residual value. In the event these assumptions result in the sum of the undiscounted cash flows exceeding the assets carrying value, an impairment loss would be recognized. To calculate this impairment loss would then require management to determine an appropriate discount rate, which is subjective. There were no impairment losses recorded for the years ended December 31, 2008 or 2007.

Building Amortization
The key estimate that management makes is regarding the depreciation of its building assets. Since January 1, 2004, the Company has used the straight-line method of amortization in accordance with Section 1100 of the Canadian Institute of Chartered Accountants (CICA) Handbook. If management's assumptions of estimated useful life or allocation of purchase price to building assets proves incorrect, the computation of depreciation could be materially different than recorded amounts.

Property Acquisitions
Under EIC 140 the purchase price of an acquisition must be allocated to land, building and intangible assets. This allocation of the components involves substantial estimates and judgment by management. The Company frequently purchases properties requiring capital improvements. This often involves the replacement of tenants occupying buildings at the time of acquisition. Upon review of the leases and the tenants' relationships relating to the acquired buildings, the Company has established that there is little or no value associated with above and below market value leases and has allocated a portion of the purchase price to other in-place leases or tenant relationships as appropriate.

Capitalized Expenditures
Under Canadian GAAP, the Company capitalizes expenditures related to acquiring new assets, enhancing the value of existing assets, or extending the life of an existing asset. Expenditures necessary to maintain an existing property in normal operating condition are expensed as incurred. On a quarterly basis, the Company estimates the time that its on-site employees spend working on capital projects as well as an estimate of the direct overhead involved in managing these projects.

Stock-based Compensation
CICA Handbook section 3870, Stock Based Compensation and Other Stock Based Payments requires the expensing of the fair value of stock options. The Company determines the fair value of the options at the date of grant using the Black Scholes option pricing model and recognizes the fair value over the vesting period as compensation expense and contributed surplus. This option pricing model requires the Company to make assumptions about the risk-free interest rate, expected term, expected volatility and dividend yield of Killam's common shares.

Accounting Policy Changes

Effective January 1, 2009, the Company has adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook:

Section 3064 – Goodwill and Intangible Assets

The new standard which replaces Section 3062, Goodwill and Other Intangible Assets, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements commencing January 1, 2009. The adoption of this section did not have an impact on the Company's financial results.

EIC-173, Credit Risk and the Fair value of Financial Assets and Financial Liabilities

On January 20, 2009 the Emerging Issues Committee ("EIC") issued a new abstract EIC 173 "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not impact the Company's financial statements.

Future Accounting Policy Changes

Business combinations

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These sections replace the former CICA Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements" and established a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board ratified a strategic plan that will see Canadian GAAP converged with, and replaced by, International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. As a result, Killam has developed a plan to convert its Consolidated Financial Statements to IFRS by that date. Management is actively involved with the process of transition from current GAAP to IFRS and there is regular progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation.

The implementation project consists of three phases, which in certain cases will be in progress concurrently as IFRS is applied to specific areas.

Scoping and Diagnostics

During 2008 Killam engaged an external advisor to prepare an initial assessment which included a review of the major differences between Canadian GAAP and IFRS which could affect the Company. As a result of this assessment the potentially affected areas were ranked high, medium or low priority. Based on the current state of IFRS, this phase has been completed and management has identified certain differences between GAAP and IFRS that may impact Killam's financial results. A summary of these differences is set out below.

The International Accounting Standards Board (IASB) has activities currently underway which may change IFRS and such changes may impact Killam. Management will assess any such changes as they occur.

Impact analysis, evaluation and design

In this phase, each GAAP/IFRS difference identified from the scoping and diagnostic phase will be addressed. This phase involves identification of changes required to existing accounting policies, information systems, internal controls over financial reporting, disclosure controls and procedures, financial reporting and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content.

This phase continues to be underway and is progressing in accordance with the plan to ensure that the Consolidated Financial Statements are IFRS compliant by the transition date of January 1, 2011. The key significant differences identified between IFRS and GAAP that will affect Killam's accounting policies are outlined below. In conjunction with this phase, management is also executing the implementation phase of the plan for the areas of known differences in accounting policies. Key elements of the plan that are currently in progress include, but are not limited to:

Financial reporting and accounting policies:

- Selection of accounting policy choices, which is expected to be completed by the transition date. Management anticipates that Killam will adopt the fair value model accounting policy for its investment properties;
- Killam has developed its real estate valuations strategy and process and is currently reviewing its model with both its auditors and its external valuation consultant. Killam expects to complete its initial valuation process in the first quarter of 2010;
- Preparation of mock financial statements and notes by the end of the second quarter of 2010.

Information systems:

- IFRS data capture is ongoing during 2010. Management expects that the changes to information technology and data systems is most significantly impacted by the accounting policies related to investment properties;

Internal controls over financial reporting and disclosure controls and procedures:

- The review of existing control processes and procedures, including its impact on internal control over financial reporting and disclosure controls and procedures, to address significant changes to existing accounting policies. This is expected to be completed in the fourth quarter of 2010 and thereafter for changes in IFRS;

Business processes:

- An assessment of the impact of IFRS accounting standards on business activities, which is ongoing during 2010 and thereafter for changes to IFRS. Management has continually monitored new agreements for IFRS impact and will continue to do so going forward;
- An assessment of impact of IFRS accounting standards on compensation arrangements and risk management practices is expected to be completed in the third quarter of 2010;

Training and communication:

- Management reports its IFRS progress and updates the Audit Committee on a quarterly basis;
- Communication of the progress of the transition plan to external stakeholders through MD&A disclosure. This is ongoing at each quarter of 2010.

Implementation and review

This phase includes execution of changes identified in the impact analysis, an evaluation and design phase, completing a formal authorization process to approve recommended accounting policy changes and training programs across Killam's finance and other staff, as necessary. It will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements, embedding IFRS in business processes, elimination of some unnecessary data collection processes and Audit Committee approval of IFRS financial statements. Implementation also involves delivery of further training to staff as revised systems begin to take effect.

Summary of Key Differences between IFRS and GAAP

While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. Further, the Company anticipates a significant increase in disclosures resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process information. Set out below are the key changes in accounting policies due to the adoption of IFRS that are expected to impact Killam's Consolidated Financial Statements. This is not a complete list of changes that will result from the transition to IFRS and is intended to highlight those changes believed to have the most significant impact on Killam's accounting policies. Further, the IASB is currently in the process of amending, or expected to amend, numerous standards that are applicable to Killam. The analysis of accounting policy changes has been made based on the IFRS standards that are anticipated to be effective at the time of transition. The future impacts of IFRS will also depend on the particular circumstances prevailing in the year of adoption and going forward. As IFRS standards are amended, management will continue to evaluate the impact to its processes and accounting policies on adoption and will provide updated disclosure as appropriate. Based on the initial assessment, the following standards have been identified as potentially having the most significant impact to Killam.

Investment Property – IAS 40

Investment property is defined as property held to earn rental income or for capital appreciation or both. As such, under IAS 40, Killam's properties would meet the definition of investment property. Under IAS 40, Killam can elect to measure its investment properties using either the fair value model or the cost model; the same model must be applied to all investment property. Under Canadian GAAP only the cost model is available. Under the fair value model, the investment property is carried at fair value on one line on the balance sheet with amortization expense no longer recorded, however, changes in fair value are reported through earnings in each reporting period. The cost model (as defined in IAS 16) closely resembles current Canadian GAAP, however, the fair values must still be disclosed in the notes to the financial statements. Under IFRS 1-First time adoption of IFRS, Killam may choose either valuation model for its properties prospectively and if the fair value model is chosen the resulting adjustment is recorded directly to retained earnings. It is management's intention to adopt the fair value model of accounting for investment properties, however, management is not yet in a position to comment on the potential impacts on Killam's reported cash flows and statements of income. The adoption of IFRS will have a material impact on the Consolidated Balance Sheet. In particular, Killam's IFRS opening balance sheet will reflect the reevaluation of income properties to fair value. In addition, Killam's intangible assets will be presented as a component of investment properties. It is expected that all changes to the opening balance sheet will require a corresponding tax asset or liability be established based on the resulting differences between the carrying value of assets and liabilities and their tax basis.

We anticipate a significant increase in the value of investment properties which will increase Shareholders' Equity on the opening IFRS balance sheet when compared to the December 31, 2009 balance sheet presented under GAAP. One significant consequence of this accounting treatment is that Killam's indebtedness ratio is expected to be lower on the opening balance sheet under IFRS than the indebtedness ratio on the previous closing balance sheet under GAAP.

Business Combinations – IFRS 3 Revised

Currently under Canadian GAAP, Killam accounts for its property acquisitions as asset acquisitions. The definition of a business under IFRS 3 Revised may require the Company to account for many property acquisitions as business combinations and allocate the purchase price to all identifiable assets and liabilities assumed including contingent liabilities as well as any non-controlling interest and any goodwill or gains from bargain purchase options be recognized and measured at fair value. Additionally, IFRS 3 Revised prohibits the capitalization of transaction costs including professional fees and land transfer taxes. This may have a material impact on net income and FFO in the year of a property's acquisition.

IFRS 3 Revised requires that the standard be applied to all business combinations from inception. Management anticipates electing the business combination exemptions in IFRS 1 to restate any of its business combinations as at the IFRS transition date and not apply IFRS 3 Revised retrospectively to past business combinations.

Income Taxes – IAS 12

The objective of the standard, similar to GAAP, is to prescribe how to account for the current and future tax consequences of the future recovery or settlement of the carrying amount of assets or liabilities recognized in the Company's financial statements. It is expected that the change to the deferred income tax liability at transition to IFRS will be significant, as Killam will revalue its investment properties to fair value. However, management cannot quantify the impact of any such adjustment at the present time.

Disclosure Controls and Procedures and Internal Controls

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Corporation's Disclosure Controls and Procedures and Internal Controls will prevent or detect all error and all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Corporation have been detected.

Disclosure Controls and Procedures

As of December 31, 2009 the Company's management evaluated the effectiveness of the operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer.

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

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

Internal Controls over Financial Reporting

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

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

As of the financial year ended December 31, 2009, the certifying officers have evaluated the design and effectiveness of such ICFR, or caused them to be designed and evaluated under their supervision. The certifying officers have concluded that the design and effectiveness of ICFR were operating effectively as at December 31, 2009, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The certifying officers have evaluated whether there were any changes to the Company's ICFR during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect its ICFR. No changes were identified through their evaluation.

Subsequent Events

During the period January 1 to February 26, 2010 the Company has refinanced $5.5 million of maturing apartment debt for net proceeds of $7.6 million. The previous weighted average interest rate was 5.99% and the interest rate on the new debt is 4.16%.

Subsequent to December 31, 2009, Killam acquired an additional 8.3% of Garden Park Apartments in Halifax for $1.8 million, increasing Killam's ownership in the building to 39%. The purchase price was satisfied with a $0.9 million vendor mortgage and the remainder in cash.

On January 18, 2010 and February 18, 2010, the Company announced dividends of $0.046668 per share, payable on February 15, 2010 and March 15, 2010 respectively, to shareholders of record on January 29, 2010 and February 26, 2010 respectively.

On March 25, 2010, the Company closed a public share offering of 6,210,000 common shares at a price of $8.15 per share for gross proceeds of $50.6 million.

Management's Report and Auditors' Report

Management's Report

To the Shareholders of Killam Properties Inc.

The accompanying financial statements and all information in the Annual Report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the financial statements.

Management maintains systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records properly maintained to provide reliable information for the preparation of financial statements. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board carries out this responsibility principally through the Audit Committee.

The Audit Committee is appointed by the Board and consists of three independent directors. The committee meets periodically with management and the external auditors to satisfy itself that it has properly discharged its responsibilities, and to review financial statements. The external auditors have full and free access to the Audit Committee at anytime. The committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to shareholders.

February 26, 2010

AUDITORS' REPORT

To the Shareholders of Killam Properties Inc.

We have audited the consolidated balance sheets of Killam Properties Inc. as at December 31, 2009 and 2008, and the consolidated statements of loss, deficit, comprehensive loss and accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants
Halifax, Canada
February 26, 2010, except as to Note 16,
which is as of March 30, 2010

Consolidated Balance Sheets

In thousands

As at December 31,	2009	2008
ASSETS		
Real estate properties *(note 3)*	**$709,314**	$718,550
Cash and cash equivalents *(note 4)*	**10,961**	4,334
Restricted cash *(note 4)*	**7,020**	5,544
Accounts receivable *(note 15)*	**2,676**	1,392
Income tax receivable	**400**	20
Other assets *(note 5)*	**8,278**	8,828
Deferred financing costs (net)	**84**	-
Future income taxes	**640**	-
	$739,373	$738,668
LIABILITIES AND SHAREHOLDERS' EQUITY		
Mortgages and loans payable *(note 6)*	**$500,080**	$484,092
Convertible debentures *(note 7)*	**40,822**	40,293
Subordinated debentures *(note 8)*	**9,552**	18,837
Credit facility *(note 9)*	**-**	10,441
Accounts payable and accrued liabilities	**7,817**	7,900
Dividends payable	**1,800**	1,591
Security deposits	**2,100**	2,005
Future income taxes	-	316
	562,171	565,475
Shareholders' Equity		
Capital stock *(note 10)*	**243,205**	218,057
Contributed surplus *(note 10)*	**1,842**	1,332
Other paid-in capital *(notes 7 and 8)*	**2,468**	2,468
Accumulated other comprehensive loss	**(15)**	(550)
Deficit	**(70,298)**	(48,114)
	177,202	173,193
	$739,373	$738,668

See accompanying notes

On behalf of the Board

G. W. Watson

G. Wayne Watson
Director

Philip Fraser

Philip Fraser
Director

Consolidated Statements of Loss

In thousands (except per share amounts)

For the year ended December 31,	**2009**	2008
Property Operations		
Rental revenue	**$103,899**	$97,454
Other operating income	**475**	474
Property operating expenses	**(41,768)**	(41,470)
Income from property operations	**62,606**	56,458
Home Sale Operations		
Home sale revenues	**2,669**	6,704
Cost of home sales	**(2,306)**	(5,431)
New home placement fees	**70**	95
Operating expenses	**(199)**	(196)
Income from home sales	**234**	1,172
Income before undernoted items	**62,840**	57,630
Corporate revenue	**(424)**	(763)
Gain on debt retirement	**(638)**	-
Mortgage and loan interest	**26,034**	25,235
Convertible debenture interest	**2,981**	2,964
Subordinated debenture interest	**1,348**	1,360
Credit facility interest	**56**	213
Depreciation	**27,281**	27,358
Amortization of deferred financing	**1,550**	1,354
General and administrative	**6,732**	6,247
Provincial capital taxes	**313**	401
Interest and bank charges	**280**	227
	65,513	64,596
Loss before income taxes	**(2,673)**	(6,966)
Future tax recovery	**830**	1,958
Net loss	**$(1,843)**	$(5,008)
Net loss per share		
- basic	**($0.05)**	($0.15)
- diluted	**($0.05)**	($0.15)

Consolidated Statements of Deficit

In thousands

For the year ended December 31,	**2009**	2008
Deficit, beginning of year	**$(48,114)**	$(24,023)
Net loss	**(1,843)**	(5,008)
Common shares repurchased and cancelled *(note 10)*	**-**	(186)
Dividends	**(20,341)**	(18,897)
Deficit, end of year	**$(70,298)**	$(48,114)

Consolidated Statements of Comprehensive Loss

In thousands

For the year ended December 31,	**2009**	2008
Net loss	**$(1,843)**	$(5,008)
Fair value of fuel hedges, net of tax	**535**	(561)
Comprehensive loss	**$(1,308)**	$(5,569)

Consolidated Statements of Accumulated Other Comprehensive Loss

In thousands

For the year ended December 31,	**2009**	2008
Balance, beginning of year	**$(550)**	$11
Fair value of fuel hedges, net of tax	**535**	(561)
Balance, end of year	**$(15)**	$(550)

Consolidated Statements of Cash Flows

In thousands

For the year ended December 31,	**2009**	2008
OPERATING ACTIVITIES		
Net loss	**$(1,843)**	$(5,008)
Add (deduct) items not affecting cash		
Depreciation and amortization	**28,831**	28,712
Non-cash debenture interest	**369**	345
Non-cash compensation expense	**450**	370
Gain on debt retirement	**(638)**	-
Future income taxes	**(830)**	(1,958)
Net change in non-cash working capital items related to operations	**(113)**	(97)
Cash provided by operating activities	**26,226**	22,364
FINANCING ACTIVITIES		
Increase in deferred financing	**(2,193)**	(2,138)
Issue of common shares for cash	**23,340**	488
Repurchase of common shares for cash	**(283)**	(1,526)
Repayment of subordinated debentures	**(8,900)**	-
(Repayment of) increase in credit facility	**(10,600)**	10,600
Repayment of long-term debt - on refinancing	**(70,254)**	(34,736)
Regular principal repayments	**(12,638)**	(12,941)
Issuance of long-term debt	**100,431**	61,677
Cash dividends	**(19,203)**	(16,562)
Cash (used in) provided by financing activities	**(300)**	4,862
INVESTING ACTIVITIES		
Increase in restricted cash	**(1,476)**	(1,118)
Purchase of capital assets	**(17,823)**	(36,409)
Cash used in investing activities	**(19,299)**	(37,527)
Net increase (decrease) in cash and cash equivalents	**6,627**	(10,301)
Cash and cash equivalents, beginning of year	**4,334**	14,635
Cash and cash equivalents, end of year	**$10,961**	$4,334

See accompanying notes

Supplemental disclosure of cash paid		
Interest	**$30,403**	$29,643
Capital taxes	**$693**	$432

Notes to Consolidated Financial Statements

Dollar amounts in thousands (except per share amounts)

1. Incorporation

Killam Properties Inc. (the "Company") is a real estate corporation specializing in the acquisition and management of multi-residential apartment buildings and manufactured home communities. The Company is incorporated under the Canada Business Corporations Act.

2. Summary of Significant Accounting Policies

Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries in accordance with CICA Handbook Section 1600.

Use of accounting estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates include, but are not limited to, the following;

(i) Economic useful life of buildings for purposes of calculating depreciation.
(ii) Forecast of economic indicators in order to measure undiscounted cash flows and fair values of buildings for purposes of determining net recoverable amounts under GAAP.
(iii) The allocation of property acquisition purchase prices entails various estimates to determine the fair values of, and allocation of purchase prices to, the tangible and intangible assets and liabilities acquired.
(iv) Amount of capitalized wages which relates to suite renovations and project improvements.

Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash. As at December 31, 2009, the Company's cash balances were held in bank accounts, which the Company has full access to, and do not include any instruments related to asset-backed securities or commercial paper programs.

Revenue recognition

Revenue from rental properties is recognized when a tenant commences occupancy of a rental unit or site and rent is due. The Company retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes rent, laundry, parking and other sundry revenues.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets and liabilities are expected to be realized or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Stock-based compensation

The Company expenses the fair value of stock options. The Company determines the fair value of the options at the date of grant using the Black-Scholes option pricing model and recognizes the fair value over the vesting period as compensation expense and contributed surplus. When stock options are exercised, the corresponding contributed surplus is transferred to capital stock.

2. Summary of Significant Accounting Policies (continued)

Capital assets

Revenue producing real estate properties held as ongoing investments are recorded at cost less accumulated depreciation and net of any impairment loss. Cost includes all expenditures incurred in connection with the acquisition of real estate property including all direct costs. All costs associated with capital improvements including direct overhead costs, other than ordinary repairs and maintenance, are capitalized and amortized over terms appropriate to the expenditure. The purchase price of properties acquired is allocated to land, building, infrastructure, equipment and intangible assets based on the fair values of the respective assets.

Revenue producing properties are reviewed periodically for impairment. An impairment loss will be recognized in the period when the carrying amount of the property exceeds the net recoverable amount represented by the undiscounted estimated future cash flows expected to be received from the ongoing use of the property plus its residual value. If it is determined that impairment exists, the carrying value of the property will be reduced to its estimated fair value.

Amortization

Capital assets are amortized at rates designed to amortize the cost of the properties over their useful lives as follows:

Buildings	2% - 2.5%	straight-line, 40 - 50 years
Roads and driveways/Water and sewer	4% - 6%	declining balance
Suite renovations	20%	declining balance
Project improvements	10%	declining balance
Other assets	5% - 30%	declining balance
Intangibles	Remaining term of lease	

Deferred 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 over the expected life of such financing. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Canadian Mortgage and Housing insurance premiums are amortized over the mortgage amortization period.

Net income per share

Diluted net income per share is calculated using the treasury stock method which recognizes the use of proceeds that could be obtained upon exercise of stock options. This method assumes that any proceeds would be used to purchase common shares at the average market price during the period.

Convertible subordinated debentures

On issuance of subordinated debentures convertible into common shares of the Company, the fair value of the holders' conversion option is reflected as "Other paid-in capital". The Company's obligation to debenture holders for future interest and principal payments is reflected as a liability carried at amortized cost. If the holders exercise their conversion option, common shares issued on conversion will be recorded at an amount equal to the aggregate carrying value of the liability and conversion option extinguished, with no gain or loss recognized.

Inventory

Inventories of manufactured homes are valued at the lower of cost (purchase price plus delivery and set-up costs) and net realizable value.

Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the net amount of the fair values assigned to its assets and liabilities and is not subject to amortization. The Company evaluates the carrying value of goodwill for potential impairment through an annual review and analysis of fair market value. Goodwill is also evaluated for potential impairment between annual tests if an event or circumstances occur that more likely than not reduces the fair value of a business below its carrying values. Fair market value is determined by use of net present value financial models, which incorporate management's assumptions of future profitability.

2. Summary of Significant Accounting Policies (continued)

Hedges

Hedge accounting requires that the Company document its risk strategy objectives and the relationships between the hedging instrument and the hedged item. The Company is also required to assess the effectiveness of the hedging relationship throughout its term and that it remains consistent with the Company's risk strategy. As at December 31, 2009, the Company has entered into various fuel cash flow hedges and has concluded that the hedges are effective. The Company recognizes on its balance sheet the fair value of these hedges. The effective portion of the change in the fair value of the hedges is recorded in other comprehensive income and reclassified to fuel expense in the same period the related hedged transaction occurs. Any ineffective portion of the change in fair value of the hedge is recognized in net earnings in the reporting period.

Financial Instruments

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount (i.e. requiring fair value or cost-based measures depending on classification). As described below, the Company classifies financial assets into one of four categories: held-for-trading, held to maturity, available-for-sale, or loans and receivables; and financial liabilities are classified into one of two categories: held-for-trading or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at amortized cost. The Company adds transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability not held-for-trading to the initial fair value of the financial asset or financial liability. For loans and receivables, other financial liabilities and available for sale financial assets with fixed or determinable payments, such transaction costs are amortized to net income using the effective interest method. For available-for-sale financial assets that do not have fixed or determinable payments, the transaction costs are subsequently recognized in other comprehensive income and then in net income when the asset is sold or impaired. Transaction costs for held-for-trading financial assets are expensed as incurred.

In accordance with Section 3855, the Company conducted a search for embedded derivatives in its contractual arrangements and did not identify any embedded features that required separate presentation from the related host contract. The Company does not acquire, hold or issue derivative financial instruments for trading purposes. The Company may use derivative instruments from time to time to hedge its exposure to future fuel costs as described in the Hedge section of the accounting policy notes.

New Accounting Policies

Effective January 1, 2009, the Company has adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook:

Section 3064 – Goodwill and Intangible Assets

The new standard which replaces Section 3062, Goodwill and Other Intangible Assets, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements commencing January 1, 2009. The adoption of this section did not have an impact on the Company's financial results.

Section 3862 - Financial Instruments – Disclosures

In June 2009, the CICA issued amendments to Section 3862, "*Financial Instruments – Disclosures*" to include additional disclosure requirements about the fair value measurement of financial instruments and to enhance liquidity risk disclosures. Further information can be found in note 15. The above accounting policy changes did not affect earnings.

2. Summary of Significant Accounting Policies (continued)

EIC-173, Credit Risk and the Fair value of Financial Assets and Financial Liabilities

In January, 2009 the Emerging Issues Committee ("EIC") issued a new abstract EIC 173 "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not impact the Company's financial statements.

Future Accounting Policy Changes

Business combinations

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These sections replace the former CICA Handbook Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board recently ratified a strategic plan that will see Canadian GAAP converged with, and replaced by, International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. Further, the Company anticipates a significant increase in disclosures resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process information.

Dollar amounts in thousands (except as noted)

3. Real Estate Properties

As at December 31,	**2009**		2008	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$85,691**	**$ —**	$85,320	$ —
Buildings	**489,490**	**50,339**	487,172	38,639
Roads and driveways	**71,175**	**10,317**	71,160	7,782
Water and sewer	**71,924**	**15,087**	71,909	11,460
Equipment	**7,610**	**1,987**	7,009	1,432
Suite renovations	**32,356**	**14,337**	28,421	10,325
Project improvements	**48,521**	**11,305**	39,619	7,666
Other assets	**8,268**	**2,743**	6,384	2,075
Intangibles	**3,552**	**3,158**	3,549	2,614
	$818,587	**$109,273**	$800,543	$81,993
Less: accumulated depreciation	**(109,273)**		(81,993)	
	$709,314		$718,550	

During the year ended December 31, 2009, the Company capitalized indirect costs of $1.0 million (2008 - $0.9 million) as part of its project improvement and suite renovation program.

4. Cash and Restricted Cash

Cash

As at December 31,	**2009**	2008
Cash	**$10,961**	$4,334

As at December 31, 2009, the Company's cash balances were held in bank accounts, which the Company has full access to, and do not include any instruments related to asset-backed securities or commercial paper programs.

Restricted Cash

As at December 31,	**2009**	2008
Real estate deposits and property tax reserves	**$5,330**	$4,128
Tenant security deposits	**1,690**	1,416
Restricted cash	**$7,020**	$5,544

5. Other Assets

As at December 31,	**2009**	2008
Prepaids	**$1,501**	$1,704
Inventory	**2,117**	2,461
Deferred charges	**160**	163
Goodwill	**4,500**	4,500
	$8,278	$8,828

Inventory relates to manufactured homes for which sales have not closed at year-end, as well as a number of stock homes. Approximately $0.1 million of the inventory is pledged as collateral related to short-term financing on the purchase of new manufactured homes for future sale. Goodwill presented above is the tax effect of the Company's acquisition of a property business through a share purchase transaction. The off-setting liability is presented in future income taxes.

Dollar amounts in thousands (except as noted)

6. Mortgages and Loans Payable

As at December 31,	**Maturities**	**Interest Rates**	**2009**	2008
Mortgages	Jan 2010 – July 2019	3.36% - 8.47%	**$497,816**	$478,367
Vendor financing	Apr 2010 – June 2016	0.00% - 9.20%	**8,369**	10,692
Total mortgages and loans			**$506,185**	$489,059
Less: deferred financing charges			**(6,105)**	(4,967)
			$500,080	$484,092

Mortgages are secured by a first charge on the properties of the Company and vendor mortgages are secured by either a second charge on the property and/or a general corporate guarantee. The weighted average mortgage rate at December 31, 2009 was 5.2% (December 31, 2008 – 5.3%).

Regular Principal and Maturity Repayments		Average Interest Rate by Year of Maturity	
Year	Amount	Balance December 31, 2009	Weighted Avg. Int. Rate
2010	$61,030	$48,850	5.24%
2011	60,856	51,169	5.58%
2012	61,713	50,381	5.45%
2013	79,980	76,750	4.84%
2014	99,170	121,233	4.81%
Thereafter	143,436	157,802	5.30%
	$506,185	$506,185	5.15%

7. Convertible Debentures

The Company's $42.2 million convertible subordinated debentures bear interest at a fixed rate of 6.5% payable semi-annually to their maturity at May 2012. The debentures are convertible into common shares of the Company at a share price of $12.40 at any time after May 2007. At the time of issuance, the fair value of the Company's obligation to make principal and interest payments was $40.6 million and the fair value of the holders' conversion option was $1.6 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component is calculated at 7.2%. The balance sheet amount at December 31, 2009 is net of $0.8 million of deferred financing charges (2008 - $1.1 million).

8. Subordinated Debentures

The Company's unsecured subordinated debentures mature January 2013 and consist of the following;

Face Interest Rate %	**2009**		2008	
	Face Amount	**Balance**	Face Amount	Balance
5.92%	**$2,500**	**$2,451**	$5,000	$4,874
6.06%	**2,500**	**2,449**	5,000	4,869
6.33%	**5,000**	**4,869**	10,000	9,662
	$10,000	**$9,769**	$20,000	$19,405
Less: Deferred financing charges		**(217)**		(568)
		$9,552		$18,837

The $0.9 million fair value of warrants issued in association with the subordinated debentures is reflected in "Other paid-in capital". Information on the warrants is presented in Note 11. The weighted average effective interest rate on the remaining liability component of the debentures is calculated at 6.8%.

Dollar amounts in thousands (except as noted)

9. Credit Facilities

The Company has credit facilities set out as follows:

I. A credit facility with a major financial institution that can be used to finance the Company's on-going acquisition program. The amount available under the revolving facility varies with the value of pledged assets, to a maximum of $15 million. The facility includes the option for a commitment increase, allowing Killam a one-time opportunity to increase the credit limit to $40 million. The interest rate on the debt is either prime plus 300 basis points on prime rate advances or 400 basis points over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at December 31, 2009 the Company has $1.7 million of assets pledged to the line and had a balance outstanding at December 31, 2009 of $Nil. This facility expires in May 2010 and includes an opportunity to extend the maturity date by an additional year.

II. An operating facility which consists of a $1.0 million revolving demand facility for general business purposes, bearing interest at the lender's prime rate plus 2%. As at December 31, 2009, the Company had letters of credit totaling $0.4 million outstanding against this facility (December 31, 2008 - $0.4 million). The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

10. Capital Stock and Contributed Surplus

Capital Stock

Authorized:
Unlimited number of common shares
Unlimited number of preferred shares, issuable in series

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

For the year ended December 31,	**2009**		2008	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of year	**34,027,582**	**$218,057**	33,392,730	$214,565
Issued for cash (i)	**4,255,000**	**23,350**	—	—
Issued on property acquisitions(ii)	**85,273**	**598**	388,037	1,997
Stock options exercised	—	—	3,625	19
Warrants exercised	—	—	125,000	475
Dividend reinvestment plan(iii)	**204,510**	**1,172**	343,290	2,444
Normal course issuer bid	**(53,600)**	**(343)**	(225,100)	(1,446)
Tax benefit of issuance costs	—	**371**	—	3
Balance, end of year	**38,518,765**	**$243,205**	34,027,582	$218,057

(i) Net of issue costs of $1,300 (ii) Net of issue costs of $3 (2008 - $4) (iii) Net of issue costs of $7 (2008 - $6)

Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan ("DRIP") allows common shareholders to elect to have all cash dividends from the Company reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to a ten day weighted average closing price of the Company's common shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15^{th} day of the month following the dividend declaration (prior to December 2009 a five day weighted average was used).

Dollar amounts in thousands (except as noted)

10. Capital Stock and Contributed Surplus (continued)

Normal Course Issuer Bid

In August 2009, the Company announced that the Toronto Stock Exchange (the "TSX") had accepted Killam's notice of intention to renew its normal course issuer bid for its common shares. Under the normal course issuer bid, Killam may acquire up to 3.1 million common shares commencing on August 22, 2009, and ending on August 21, 2010. All purchases of common shares are made through the facilities of the TSX at the market price of the shares at the time of acquisition. Daily repurchases by Killam are limited to 32,171 common shares, other than block purchase exceptions. Any shares acquired are cancelled.

For the year ended December 31, 2009, 53,600 common shares were purchased and cancelled (2008 – 225,100 common shares). The shares were purchased at an average price of $5.28 per share (2008 - $6.78 per share). The aggregate cost of the common shares purchased and cancelled for the year ended December 31, 2009 was $0.3 million (2008 - $1.5 million). For the year ended December 31, 2009, $0.3 million was recorded as a charge against share capital for the average carrying value of the common shares (2008 - $1.4 million) with the remainder charged against retained earnings and contributed surplus.

Contributed Surplus

For the year ended December 31,	**2009**	2008
Balance, beginning of year	**$1,332**	$863
Stock options expensed	**450**	429
Stock options exercised	—	(7)
Stock options forfeited	—	(59)
Normal course issuer bid	**60**	106
Balance, end of year	**$1,842**	$1,332

11. Stock Options and Warrants

Under the terms of the stock option plan:

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

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

(iii) shares to be optioned shall not exceed 2,125,000 (December 31, 2008 – 2,125,000) and the total number of shares to be optioned to any eligible participant shall not exceed 10% of the issued and outstanding shares of the class as at the date such option is granted;

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

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

Dollar amounts in thousands (except as noted)

11. Stock Options and Warrants (continued)

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

For the year ended December 31,	**2009** Number of Shares	**2009** Weighted Average Exercise Price	2008 Number of Shares	2008 Weighted Average Exercise Price
Outstanding, beginning of year	**926,875**	**$8.40**	828,500	$8.43
Granted	**405,000**	**5.32**	138,750	8.03
Exercised	—	—	(3,625)	3.68
Forfeited	—	—	(36,750)	8.06
Outstanding, end of year	**1,331,875**	**$7.46**	926,875	$8.40

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

	2009	2008
Expected volatility	**26.5%**	24.4%
Risk-free interest rate	**2.00%**	3.10%
Expected lives	**5 years**	5 years
Expected dividend yield	**10%**	7%

The following table summarizes the stock options outstanding at December 31:

As at December 31,	**2009**			2008		
Exercise Prices	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$5.32	**405,000**	**4.33 years**	**128,250**	—	—	—
$7.94	**40,000**	**2.54 years**	**6,292**	40,000	3.54 years	4,292
$8.03	**137,500**	**3.42 years**	**71,048**	137,500	4.42 years	43,544
$8.06	**137,500**	**2.63 years**	**67,146**	137,500	3.63 years	39,646
$8.11	**1,250**	**3.09 years**	**479**	1,250	4.09 years	227
$8.20	**420,750**	**0.42 years**	**393,816**	420,750	1.42 years	310,192
$9.40	**137,500**	**1.61 years**	**93,157**	137,500	2.61 years	65,657
$9.60	**48,625**	**1.55 years**	**34,481**	48,625	2.55 years	24,729
$9.92	**2,500**	**1.50 years**	**1,744**	2,500	2.50 years	1,248
$10.04	**1,250**	**2.25 years**	**681**	1,250	3.25 years	433
	1,331,875		**797,094**	926,875		489,968

The exercisable options had a weighted average exercise price of $7.91 at December 31, 2009 ($8.41 as at December 31, 2008).

Dollar amounts in thousands (except as noted)

11. Stock Options and Warrants (continued)

Warrants
The Company has issued warrants as part of certain financing arrangements as follows:

As at December 31,	**2009**		2008	
Exercise price	**Number of Warrants Outstanding**	**Remaining Contractual Life**	Number of Warrants Outstanding	Remaining Contractual Life
$14.40	**347,222**	**3.01 years**	347,222	4.01 years
$15.20	**328,947**	**3.01 years**	328,947	4.01 years
$12.24	**816,993**	**3.01 years**	816,993	4.01 years
	1,493,162		1,493,162	

The above warrants were granted in connection with the subordinated debentures issued by the Company during 2006 (see note 8).

12. Income Taxes

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

For the year ended December 31,	**2009**		2008	
Net loss before income taxes	**$(2,673)**		$(6,966)	
Income tax recovery at statutory rates	**$897**	**33.6%**	$2,187	31.4%
Non-deductible share compensation	**(151)**	**(5.6)%**	(116)	(1.7)%
Non-deductible debenture interest	**(124)**	**(4.6)%**	(108)	(1.5)%
Other differences	**208**	**7.8%**	(5)	(0.0)%
Future tax recovery	**$830**	**31.1%**	$1,958	28.2%

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

As at December 31,	**2009**	2008
Share issue costs	**$906**	$1,110
Loss carryforwards	**3,541**	—
Fair value of hedges	**6**	252
Deferred financing costs	**(71)**	—
Real estate properties	**(3,742)**	(1,678)
Net future income tax asset (liability)	**$640**	$(316)

Dollar amounts in thousands (except as noted)

13. Per Share Information

The following are the weighted average number of shares outstanding for the years ended December 31, 2009 and 2008. The fully diluted amounts shown below exclude the convertible debentures as they are considered anti-dilutive as well as stock options and warrants whose exercise price exceeded the average market price for the period.

For the year ended December 31,	**2009**	2008
Basic	**36,247,130**	33,604,410
Fully diluted	**36,340,763**	33,630,272

14. Segmented Information

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

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

As at and for the year ended December 31, 2009	**Apartments**	**Manufactured Home Communities**	**Total**
Rental revenue	**$80,056**	**$23,843**	**$103,899**
Other income	**220**	**255**	**475**
	80,276	**24,098**	**104,374**
Property operating expenses	**(33,246)**	**(8,522)**	**(41,768)**
Income from property operations	**$47,030**	**$15,576**	**$62,606**
Capital assets (net)	**$544,258**	**$163,989**	**$708,247**
Corporate assets (net)			**1,067**
Total capital assets (net)			**$709,314**
Capital expenditures	**$8,392**	**$6,779**	**$15,171**

As at and for the year ended December 31, 2008	Apartments	Manufactured Home Communities	Total
Rental revenue	$74,835	$22,619	$97,454
Other income	281	193	474
	75,116	22,812	97,928
Property operating expenses	(33,406)	(8,064)	(41,470)
Income from property operations	$41,710	$14,748	$56,458
Capital assets (net)	$552,230	$165,353	$717,583
Corporate assets (net)			967
Total capital assets (net)			$718,550
Capital expenditures	$9,119	$4,378	$13,497

Dollar amounts in thousands (except as noted)

15. Financial Risk Management Objectives and Policies

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

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

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

(i) Interest rate risk

Interest rate risk is minimized through management's periodic review of its mortgage portfolio. If market conditions warrant, the Company will attempt to renegotiate its existing debt to take advantage of lower interest rates. The Company will also structure its debt so as to stagger the debt maturities, thereby minimizing the Company's exposure to interest rate fluctuations. As at December 31, 2009 no mortgages or vendor debt have floating interest rates (December 31, 2008 - 1.3%). An annualized 1% change in the interest rate on Killam's entire mortgage and vendor debt at December 31, 2009 would affect financing costs by approximately $5.1 million per year. However, only $48.9 million of Killam's mortgage and vendor debt matures in the next twelve months and that same interest rate change would impact Killam by $0.5 million per annum.

(ii) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The Company mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing and the Company also obtains a security deposit to assist in potential recovery requirements. In addition, the receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant. The Company's bad debt expense experience over the last number of years has been less than 0.4% of revenues. The Company's policy is to write-off tenant receivables when the tenant vacates the unit and any subsequent receipt of funds is netted against bad debts. As a result of the low bad debt experience, no allowance for doubtful accounts is recorded in the accounts.

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

As at December 31,	**2009**	2008
0-30 days	**$25**	$68
31-60 days	**296**	313
61-90 days	**40**	86
Over 90 days	**103**	187
Total tenant receivables	**464**	654
Other receivables	**863**	630
Insurance receivables	**1,349**	109
Total	**$2,676**	$1,392

Included in other receivables are accruals for laundry revenue, commission revenues and other non-rental income. The vast majority of these receivables are less than 60 days old. The insurance receivable in 2009 relates to a property fire in September 2009.

Dollar amounts in thousands (except as noted)

15. Financial Risk Management Objectives and Policies (continued)

(iii) Liquidity risk

The Company is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. Senior management manages the Company's cash resources based on financial forecasts and anticipated cash flows. The maturities of the Company's long-term financial liabilities are set out in Notes 6 to 8 of the consolidated financial statements. The Company structures its financings so as to stagger the maturities of its debt, thereby minimizing the Company's exposure to liquidity risk in any one year. In addition, the Company's apartments qualify for Canada Mortgage and Housing Corporation (CMHC) insured debt, reducing the refinancing risk on mortgage maturities. The Company's MHCs do not qualify for CMHC insured debt, however, they continue to have access to mortgage debt. Management does not expect to be faced with liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector. During 2009, the Company refinanced $52.2 million of maturing apartment mortgages with new mortgages totaling $68.1 million for net proceeds of $15.9 million. In addition the Company refinanced $16.0 million of maturing MHC mortgages with new mortgages totaling $19.6 million for net proceeds of $3.6 million. Subsequent to December 31, 2009, Killam has refinanced an additional $5.5 million of maturing apartment debt with new mortgages totaling $7.6 million for net proceeds of $2.1 million.

Capital Management

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

The Company monitors capital using a total gross debt to gross book value ratio. The Company's strategy is to maintain its total gross debt to gross book value ratio between 65%-70%. The calculation of the total gross debt to gross book value is summarized as follows:

As at December 31,	**2009**	2008
Mortgages and vendor financing	**$506,185**	$489,059
Convertible debentures	**41,575**	41,338
Subordinated debentures	**9,769**	19,405
Credit facility	**-**	10,600
Total Gross Debt	**$557,529**	$560,402
Totals assets	**$739,373**	$738,668
Plus: Deferred financing re-allocated	**7,076**	6,739
Plus: Accumulated depreciation	**109,273**	81,993
Gross Book Value (GBV)	**$855,722**	$827,400
Total Gross Debt as a Percentage of GBV	**65.2%**	67.7%

Fair Value

Financial instruments are defined as a contractual right or obligation to receive or deliver cash or another financial asset. The fair values of the Company's financial instruments, except for mortgages and loans payable, approximate their recorded values at December 31, 2009 and December 31, 2008 due to their short-term nature and or the credit terms of those instruments.

Dollar amounts in thousands (except as noted)

15. Financial Risk Management Objectives and Policies (continued)

The following table presents the classification, subsequent measurement, carrying values and fair values (where available) of the Company's financial assets and liabilities.

Classification	Subsequent Measurement	2009 Carrying Value	2009 Fair Value	2008 Carrying Value	2008 Fair Value
Held for Trading:					
Cash and cash equivalents (a)	Fair Value (Level 1)	**$10,961**	**$10,961**	$4,334	$4,334
Derivative instrument liability (a)	Fair Value (Level 1)	**—**	**$(21)**	—	$(802)
Loans and Receivables:					
Receivables and other (b)	Amortized cost	**$9,696**	**$9,696**	$6,936	$6,936
Other Financial Liabilities:					
Accounts payable and other (b)	Amortized cost	**$11,717**	**$11,717**	$11,496	$11,496
Mortgages (c)	Amortized cost	**$506,185**	**$510,300**	$489,059	$529,000
Convertible debentures (c)	Amortized cost	**$41,575**	**$43,654**	$41,338	$37,833
Subordinated debentures (c)	Amortized cost	**$9,769**	**$9,717**	$19,406	$20,080

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

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

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

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

(a) Cash and cash equivalents and derivative instrument liabilities are classified as held for trading and carried at their fair values. The Company recorded a loss of $1.0 million during 2009 against net earnings related to the settlement of commodity swaps (2008 – loss of $0.1 million).

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

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

Dollar amounts in thousands (except as noted)

15. Financial Risk Management Objectives and Policies (continued)

As at December 31, 2009, the Company had entered into natural gas and oil swap contracts to hedge portions of its fuel requirements for various periods, as follows:

Hedge Period	Quantity Hedged	% of estimated usage hedged	NYMEX Price	Fair Value
			($C)	
Oil *(litres)*				
Jan-March 2010	220,000	21%	$0.60	$(2.0)
Natural Gas *(MMBTUs)*				
Jan-March 2010	6,300	10%	$8.90	(19.0)
				$(21.0)

The fair value presented above represents the estimated cost if the Company were to unwind the hedge positions as at December 31, 2009. The actual costs to settle the hedge contracts is recorded to fuel expense in the same period the related hedged transaction occurs.

16. Subsequent Events

During the period January 1 to February 26, 2010 the Company has refinanced $5.5 million of maturing apartment debt for net proceeds of $7.6 million. The previous weighted average interest rate was 5.99% and the interest rate on the new debt is 4.16%.

Subsequent to December 31, 2009, Killam acquired an additional 8.3% of Garden Park Apartments in Halifax for $1.8 million, increasing Killam's ownership in the building to 39%. The purchase price was satisfied with a $0.9 million vendor mortgage with the remainder in cash

On January 18, 2010 and February 18, 2010, the Company announced dividends of $0.046668 per share, payable on February 15, 2010 and March 15, 2010 respectively, to shareholders of record on January 29, 2010 and February 26, 2010 respectively.

On March 25, 2010, the Company closed a public share offering of 6,210,000 common shares at a price of $8.15 per share for gross proceeds of $50.6 million.

FIVE YEAR SUMMARY

In thousands (except per share data)

Statement of Earnings Information	2009	2008	2007	2006	2005
Income from Property Operations	**$62,606**	$56,458	$49,967	$41,348	$27,898
Income from Home Sales	**$234**	$1,172	$488	$131	$ –
Corporate Revenue	**$424**	$763	$1,156	$509	$267
Interest Costs	**$30,699**	$29,999	$27,596	$24,756	$14,996
General and Administrative	**$6,732**	$6,247	$5,548	$4,506	$2,271
(Gain) Loss on Debt Settlement	**$(638)**	$ –	$ –	$437	$ –
Depreciation and Amortization	**$28,831**	$28,712	$25,664	$17,913	$10,412
Provincial Capital Tax	**$313**	$401	$478	$333	$209
Recovery of (Provision for) Income Taxes	**$830**	$1,958	$2,270	$2,200	$(272)
Net (Loss) Income	**$(1,843)**	$(5,008)	$(5,405)	$(3,757)	$5
Balance Sheet Information					
Capital Assets (net)	**$709,314**	$718,550	$694,652	$567,099	$452,076
Other Assets	**$30,059**	$20,118	$29,028	$20,280	$17,440
Total Assets	**$739,373**	$738,668	$723,680	$587,379	$469,516
Mortgage Debt	**$500,080**	$484,092	$458,459	$389,278	$302,821
Other Liabilities	**$62,091**	$81,383	$71,337	$90,448	$71,851
Shareholders' Equity	**$177,202**	$173,193	$193,884	$107,653	$94,844
Total Liabilities and Shareholders' Equity	**$739,373**	$738,668	$723,680	$587,379	$469,516
Statement of Cash Flow Information					
Cash Provided by Operating Activities	**$26,226**	$22,364	$18,412	$10,278	$14,916
Cash (Used in) Provided by Financing Activities	**$(300)**	$4,862	$116,358	$108,279	$169,940
Cash Used in Investing Activities	**$(19,299)**	$(37,527)	$(123,164)	$(116,740)	$(184,139)
Funds From Operations (FFO)	**$26,339**	$22,461	$18,696	$12,498	$10,923
Share Information					
Weighted Average Number of Shares - Basic	**36,247**	33,604	29,653	20,952	19,716
Weighted Average Number of Shares - Fully Diluted	**36,341**	33,630	29,904	21,424	20,266
Shares Outstanding at December 31	**38,519**	34,028	33,393	22,063	20,333
Per Share Information					
FFO per Share - Basic	**$0.73**	$0.67	$0.63	$0.60	$0.55
FFO per Share - Fully Diluted	**$0.72**	$0.67	$0.63	$0.58	$0.54
Net Earnings - Basic	**$(0.05)**	$(0.15)	$(0.18)	$(0.18)	$0.00
Unit Price at December 31	**$8.80**	$4.47	$9.21	$10.12	$11.52

CORPORATE INFORMATION

Board of Directors

Timothy R. Banks (3)
President, APM Group of Companies
Charlottetown, Prince Edward Island

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

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

James C. Lawley (1) (2)
General Manager, Scotia Fuels Ltd.
Halifax, Nova Scotia

Arthur G. Lloyd
Corporate Director
Calgary, Alberta

George J. Reti (2) (3)
Chairman of the Board
Calgary, Alberta

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

Manfred J. Walt, CA (3)
President & CEO, Walt & Co. Inc.
Toronto, Ontario

G. Wayne Watson, CA (1) (2)
Corporate Director
Halifax, Nova Scotia

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

Executive Team

Philip Fraser
President & Chief Executive Officer

Robert Richardson, FCA
Executive Vice President & Chief Financial Officer

Ruth Buckle-McIntosh
Vice President, Property Management

Pamela Crowell
Vice President, Property Management (MHCs)

Keith Foster, CA
Vice President, Finance

Jeremy Jackson
Vice President, Marketing

Michael McLean
Vice President, Development

Ronald Barron
Corporate Secretary

Investor Inquiries

Dale Noseworthy, CA, CFA
Director, Investor & External Relations
902.442.0388

Auditors

Ernst & Young, LLP
Halifax, NS

Solicitors

Bennett Jones, LLP
Calgary, AB

Stewart McKelvey Sterling Scales
Halifax, NS

Registrar and Transfer Agent

Computershare Investor Services Inc.
Suite 2008, Purdy's Wharf, Tower II
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Share Listing

Toronto Stock Exchange (TSX)
Trading Symbol: KMP, KMP: DB

Monthly Dividend

January 2009 - December 2009
$0.046668 per share

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ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Thursday, May 6, 2010 at 10:00 am Atlantic Time at the Four Points Sheraton, 1496 Hollis Street, Halifax, Nova Scotia

KILLAM PROPERTIES INC

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