

2022 Management's Discussion and Analysis

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

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PART I

Business Overview and Strategy

Killam Apartment REIT ("Killam", the "Trust", or the "REIT"), based in Halifax, Nova Scotia (NS), is one of Canada's largest multi-residential property owners, owning, operating, managing and developing a \$4.8 billion portfolio of apartments, manufactured home communities (MHCs) and commercial properties across seven provinces. Killam was founded in 2000 to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam entered the Ontario (ON) apartment market in 2010, the Alberta (AB) apartment market in 2014, and the British Columbia (BC) apartment market in 2020. Killam broke ground on its first development in 2010 and has completed 16 projects to-date, with a further three projects currently under construction.

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

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

The apartment business is Killam's largest segment and accounted for 88.6% of Killam's net operating income (NOI) for the year ended December 31, 2022. As at December 31, 2022, Killam's apartment portfolio consisted of 19,527 units, including 1,343 units jointly owned with institutional partners. Killam's 231 apartment properties are located in Atlantic Canada's six largest urban centres (Halifax, Moncton, Saint John, Fredericton, Charlottetown and St. John's), Ontario (Ottawa, London, Toronto, Guelph and Kitchener-Waterloo-Cambridge), Alberta (Edmonton and Calgary), and British Columbia (Greater Victoria and Courtenay). Killam is Atlantic Canada's largest owner of multi-residential apartments and plans to continue increasing its presence outside Atlantic Canada through acquisitions and developments; however, it will continue to invest strategically in Atlantic Canada to maintain its market presence.

In addition, Killam owns 5,975 sites in 40 MHCs, also known as land-lease communities or trailer parks, in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting these communities and leases sites to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 6.1% of Killam's NOI for the year ended December 31, 2022. Killam also owns 946,372 square feet (SF) of commercial space that accounted for 5.3% of Killam's NOI for the year ended December 31, 2022.

Basis of Presentation

The following Management's Discussion and Analysis (MD&A) has been prepared by Management and focuses on key statistics from the annual consolidated financial statements, including the notes thereto, and pertains to known risks and uncertainties. This MD&A should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2022 and 2021, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These documents, along with Killam's 2021 Annual Information Form (AIF), are available on SEDAR at www.sedar.com.

The discussions in this MD&A are based on information available as at February 16, 2023. This MD&A has been reviewed and approved by Management and the REIT's Board of Trustees.

Declaration of Trust

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

Investment Guidelines

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

Operating Policies

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

As at December 31, 2022, Killam was in compliance with all investment guidelines and operating policies.

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Forward-Looking Statements

Certain statements contained in this MD&A may contain forward-looking statements and forward-looking information (collectively, "forward-looking statements") including within the meaning of applicable securities law.

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", "target", "committed", "priority", "remain", "strategy", or the negative of these terms or other comparable terminology, and by discussions of strategies that involve risks and uncertainties.

Such forward-looking statements contained in this MD&A may include, among other things, statements regarding: Killam's expectations for market demand, rent growth and occupancy levels; the effect of government-imposed rental rate restrictions; Killam's strategy and priorities, including increasing earnings from Killam's existing portfolio, expanding Killam's portfolio through acquisitions, and developing high-quality properties in core markets; top-line growth driving same property NOI growth; Killam's increased presence outside of, and maintained market presence in, Atlantic Canada through acquisitions and development; Killam's development pipeline and the qualities thereof; the expansion of Killam's portfolio for future developments; future acquisitions, including the amount expected to be invested in such acquisitions and the location of such acquisitions; Killam's property developments, including cost and timing of completion thereof and Management's expectations regarding capital improvement costs; short- and longer-term targets relating to same property NOI growth, portfolio growth, geographic diversification and NOI generated outside of Atlantic Canada, development of high quality properties and investment in completed developments, strengthening Killam's balance sheet and debt maintenance or reductions, return on investment, and affordable housing and the factors that may affect the achievement of such targets; Killam's joint venture partners; Killam's ability to mitigate cost increases and property taxes; maintenance and operating costs; the effect of completed developments on Killam's business, including FFO per unit; the expansion and optimization of Killam's repositioning program, the units eligible therefor and expected revenues generated thereunder; uncertainties and risks arising as a result of the spread of the COVID-19 pandemic, including uncertainty surrounding disruptions to financial markets, regional economies and the world economy; interest rate fluctuations; reduced debt levels and long-term debt reduction targets; the adjustment of cap-rates to match market values; commodity prices and the impacts thereof on Killam's operating costs; the impact of efficiency initiatives on Killam's operating costs and NOI growth; credit availability; financing costs, including increased interest expenses; the pace and scope of future acquisitions, construction, development and renovation, renewals and leasing; the estimated population, demographic, economic and other changes in key markets and the related effects on Killam's business; the GDP growth across the country post-pandemic; the continued capital investment from governments and the private sector in key markets; the sufficiency of Killam's liquidity and capital resources; the availability and sources of capital to fund further acquisitions and investments in Killam's business; replacing construction financing with permanent mortgage financing; Killam's NCIB program and share purchases thereunder; the required expenditures to comply with environmental regulations; expiration of leases and the effect thereof on Killam's business; Killam's commitment to environmental, social and governance (ESG) and its ESG policy; investment in ESG initiatives and technology and its impact on Killam's energy consumption and costs and carbon footprint; augmenting Killam's sustainability programs and policies and Killam's actions thereunder; reducing Killam's impact on the environment; Killam's climate change reporting; the installation of electric vehicle charging stations across Killam's portfolio; the sustainability and resilience to climate change of Killam's buildings; and the benefit of building certifications and high operating and living standards.

Readers should be aware that these forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward-looking statements, including: the effects and duration of the local, international or global events, such as the COVID-19 pandemic, and any government responses thereto; national and regional economic conditions (including rising interest rates and inflation), 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 "Risk Management" section in this document and under the "Risk Factors" section in Killam's most recent AIF. 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 contained therein may not occur. Although Management believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated.

While Killam anticipates that subsequent events and developments may cause this view to change, Killam does not intend to update or revise any forward-looking statement, whether as a result of new information, future events, circumstances, or such other factors that affect this information, except as required by applicable law. The forward-looking statements in this document are provided for the limited purpose of enabling current and potential investors to evaluate an investment in Killam. Readers are cautioned that such statements may not be appropriate and should not be used for any other purpose.

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Non-IFRS Financial Measures

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

Non-IFRS Financial Measures

- Funds from operations (FFO) is a non-IFRS financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALPAC. FFO, and applicable per unit amounts, are calculated by Killam as net income adjusted for fair value gains (losses), interest expense related to Exchangeable Units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, depreciation on an owner-occupied building, interest expense related to lease liabilities, and non-controlling interest. FFO is calculated in accordance with the REALPAC definition. A reconciliation between net income and FFO is included on page 30.
- Adjusted funds from operations (AFFO) is a non-IFRS financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALPAC. AFFO, and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less an allowance for maintenance capital expenditures ("capex") (a three-year rolling historical average capital investment to maintain and sustain Killam's properties), commercial leasing costs and straight-line commercial rents. AFFO is calculated in accordance with the REALPAC definition. Management considers AFFO an earnings metric. A reconciliation from FFO to AFFO is included on page 32.
- Adjusted cash flow from operations (ACFO) is a non-IFRS financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALPAC. ACFO is calculated by Killam as cash flow provided by operating activities with adjustments for changes in working capital that are not indicative of sustainable cash available for distribution, maintenance capital expenditures, commercial leasing costs, amortization of deferred financing costs, interest expense related to lease liabilities and non-controlling interest. Management considers ACFO a measure of sustainable cash flow. A reconciliation from cash provided by operating activities to ACFO is included on page 33. ACFO is calculated in accordance with the REALPAC definition.
- Adjusted earnings before interest, tax, depreciation and amortization ("adjusted EBITDA") is calculated by Killam as net income before fair value adjustments, gains (losses) on disposition, income taxes, interest, depreciation and amortization. A reconciliation is included on page 35.
- Normalized adjusted EBITDA is calculated by Killam as adjusted EBITDA that has been normalized for a full year of stabilized earnings from recently completed acquisitions and developments, on a forward-looking basis. A reconciliation is included on page 35.
- Net debt is a non-IFRS measure used by Management in the computation of debt to normalized adjusted EBITDA. Net debt is calculated as the sum of mortgages and loans payable, credit facilities and construction loans (total debt) reduced by the cash balances at the end of the period. The most directly comparable IFRS measure to net debt is debt.

Non-IFRS Ratios

- Interest coverage is calculated by dividing adjusted EBITDA by mortgage, loan and construction loan interest and interest on credit facilities. The calculation is included on page 35.
- Debt service coverage is calculated by dividing adjusted EBITDA by mortgage loan and construction loan interest, interest on credit facilities and principal mortgage repayments. The calculation is included on page 35.
- Per unit calculations are calculated using the applicable non-IFRS financial measures noted above, i.e. FFO, AFFO and/or ACFO, divided by the basic or diluted number of units outstanding at the end of the relevant period.
- Payout ratios are calculated using the distribution rate for the period divided by the applicable per unit amount, i.e. AFFO and/or ACFO.
- Debt to normalized adjusted EBITDA is calculated by dividing net debt by normalized adjusted EBITDA. The calculation is included on page 35.

Supplementary Financial Measures

- Same property NOI is a supplementary financial measure defined as NOI for stabilized properties that Killam has owned for equivalent periods in 2022 and 2021. Same property results represent 85.8% of the fair value of Killam's investment property portfolio as at December 31, 2022. Excluded from same property results in 2022 are acquisitions, dispositions and developments completed in 2021 and 2022, and non-stabilized commercial properties linked to development projects.
- Same property average rent is calculated by taking a weighted average of the total residential rent for the last month of the reporting period, divided by the relevant number of the units per region for stabilized properties that Killam has owned for equivalent periods in 2022 and 2021. For total residential rents, rents for occupied units are based on contracted rent, and rents for vacant units are based on estimated market rents if the units were occupied.

Capital Management Financial Measure

- Total debt as a percentage of total assets is a capital management financial measure and is calculated by dividing total debt by total assets, excluding right-of-use assets. This measure is reconciled in Note 27 of the consolidated financial statements.

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PART II

Key Performance Indicators

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

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

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Financial and Operational Highlights

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

For the years ended December 31,	2022	2021	Change ⁽¹⁾
Operating Performance			
Property revenue	\$328,847	\$290,917	13.0%
Net operating income	\$206,912	\$183,235	12.9%
Net income	\$122,532	\$285,527	(57.1)%
FFO ⁽²⁾	\$132,603	\$119,235	11.2%
FFO per unit – diluted ⁽²⁾	\$1.11	\$1.07	3.7%
AFFO ⁽¹⁾	\$111,557	\$100,438	11.1%
AFFO per unit – diluted ⁽²⁾	\$0.93	\$0.90	3.3%
Weighted average number of units outstanding – diluted (000s)	119,678	111,626	7.2%
Distributions paid per unit ⁽³⁾	\$0.70	\$0.69	1.4%
AFFO payout ratio – diluted ⁽²⁾	75%	76%	(100) bps
Portfolio Performance			
Same property NOI ⁽²⁾	\$182,318	\$174,138	4.7%
Same property NOI margin ⁽²⁾	63.3%	63.5%	(20) bps
Same property apartment occupancy	98.3%	97.0%	130 bps
Same property apartment weighted average rental increase ⁽⁴⁾	3.7%	3.0%	70 bps
As at December 31,			
Leverage Ratios and Metrics			
Total debt as a percentage of total assets	45.3%	45.0%	30 bps
Weighted average mortgage interest rate	2.74%	2.58%	16 bps
Weighted average years to debt maturity	3.8	4.0	(0.2) years
Debt to normalized EBITDA ⁽²⁾	11.21x	11.33x	(1.1)%
Debt service coverage ⁽²⁾	1.51x	1.53x	(1.3)%
Interest coverage ⁽²⁾	3.31x	3.53x	(6.2)%

(1) Change expressed as a percentage, basis points (bps) or years.

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

(3) The Board of Trustees approved a 2.9% increase in Killam's distribution on an annualized basis to \$0.70 per unit, effective for the September 2021 distribution.

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

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Summary of 2022 Results and Operations

Continued Geographic Diversification through Acquisitions and Developments Completed in 2022

During 2022, Killam continued to expand its portfolio through acquisitions, acquiring \$118.6 million in properties. Killam added 338 apartment units and 99 MHC sites to its portfolio, expanding its geographic diversification, with 91% of the apartment units acquired located outside of Atlantic Canada, principally in Ontario and British Columbia. Killam is executing on its geographic diversification strategy; the percentage of NOI generated outside of Atlantic Canada reached 35.8% in 2022, up 280 bps from 33.0% in 2021.

Killam continues to advance its developments, investing \$63.2 million in 2022 and completing three development projects. This includes two joint venture properties, Latitude (208 units) and Luma (168 units), both located in Ottawa, and The Kay, a 128-unit building located in Mississauga. In aggregate, these three properties are expected to generate \$6.0 million in NOI annually, once stabilized (for Killam's ownership interest). Killam also has two active projects totalling 181 units which are expected to be completed in mid-2023, and another 139-unit project underway expected to be completed in 2024.

Net Income Impacted by Fair Value Write-Downs

Killam earned net income of \$122.5 million in 2022, compared to \$285.5 million in 2021. The decrease in net income is due to fair value write-downs on investment properties of \$19.9 million in 2022, compared to fair value gains of \$239.7 million in 2021. These fair value losses reflect an expansion of cap-rates during the year. Killam's weighted average cap-rate for its apartment portfolio as at December 31, 2022 was 4.48%, a 7 bps increase from the weighted average cap-rate as at December 31, 2021. The fair value losses were partially offset with robust NOI growth driven by strong apartment fundamentals. Killam's NOI grew by \$23.7 million, or 12.9% year-over-year, driven by acquisitions, completed developments, and increased earnings from the existing portfolio.

Achieved FFO per Unit Growth of 3.7% and AFFO per Unit Growth of 3.3%

Killam's FFO per unit was \$1.11 in 2022, a 3.7% increase from \$1.07 in 2021. AFFO per unit increased 3.3% to \$0.93, compared to \$0.90 in 2021. The growth in FFO and AFFO was attributable to increased NOI from Killam's same property portfolio and incremental contributions from acquisitions, which total over \$500 million since the beginning of 2021. This growth was partially offset by a 7.2% increase in the weighted average number of Trust Units outstanding, along with higher interest expense as a result of rising interest rates.

Revenue Growth Drove Same Property NOI Growth of 4.7%

Killam generated 4.7% same property NOI growth during the year, with a 4.5% increase from the apartment portfolio, a 7.9% increase from the commercial portfolio and a 6.0% increase from the MHC portfolio. Same property revenue growth of 5.0% was driven by higher rental rates across all three business segments, coupled with a 130 bps increase in apartment occupancy. Total same property operating expenses increased 5.4% in 2022, driven primarily by higher natural gas pricing in Killam's core markets, which resulted in a 13.3% increase in same property utility and fuel expenses. Same property general operating expenses were managed below inflation, only increasing by 3.6%, while property tax expenses increased modestly by 2.2%.

Rising Interest Rates

The maturity dates of Killam's mortgages are staggered to help mitigate interest rate risk. During the year, Killam refinanced \$151.6 million of maturing mortgages with \$213.0 million of new debt at a weighted average interest rate of 3.70%, 90 bps higher than the weighted average interest rate of the maturing debt. Interest expense related to Killam's credit facilities increased as variable interest rates rose sharply in 2022.

Progress on ESG Initiatives

Killam continues to reduce its environmental impact and ensure its buildings are sustainable and resilient to climate change. In 2022, Killam invested \$8.5 million in energy projects, which included \$3.2 million in building efficiencies, including improved insulation and cladding, \$2.1 million in new high efficiency boilers, \$1.4 million in window replacements, \$1.3 million in solar panels and \$0.5 million in the installation of electric vehicle chargers.

In the fourth quarter, Killam commissioned its sixth geothermal heating and cooling system, increasing the number of apartment units using geothermal technology to over 1,000. The newest installation is at Civic 66, Killam's 169-unit development in Kitchener, Ontario, which is scheduled to open in the first half of 2023. This system is expected to reduce heating and cooling energy consumption by approximately 25% compared to conventional heating and cooling systems.

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2022 Strategic Targets and Performance

Growth in Same Property NOI	
2022 Target	Achieve same property NOI growth averaging 2.0%–3.0%.
2022 Performance	Killam exceeded its target, achieving 4.7% same property NOI growth in 2022.
Expand Portfolio	
2022 Target	Complete a minimum of \$150 million in acquisitions.
2022 Performance	Killam grew its portfolio by \$118.6 million in 2022, with acquisitions in Halifax, Waterloo, Guelph, Victoria, and Courtenay. Management made the decision to slow its acquisition program in the latter half of 2022 due to rising interest rates and economic uncertainty.
Geographic Diversification	
2022 Target	Earn at least 35% of 2022 NOI outside Atlantic Canada.
2022 Performance	Killam exceeded its target, generating 35.8% of 2022 NOI outside Atlantic Canada.
Development of High-Quality Properties	
2022 Target	Complete construction of four buildings and break ground on two additional developments in 2022.
2022 Performance	Killam completed three developments in 2022: Latitude, The Kay and Luma. Due to construction delays, The Governor, a 12-unit building located in Halifax, is expected to be completed in mid-2023. Killam also broke ground on The Carrick, a 139-unit building in Waterloo, ON, and the second phase of Nolan Hill in Calgary.
Strengthened Balance Sheet	
2022 Target	Maintain debt as a percentage of total assets ratio below 45%.
2022 Performance	Killam's debt as a percentage of total assets was 45.3% as at December 31, 2022. The increase in the ratio is attributable to a higher balance on Killam's credit facilities from acquisitions during the year and the recognition of fair value losses (\$19.9 million) related to investment properties due to a moderate expansion of cap-rates in the latter part of the year.
Sustainability	
2022 Target	Invest a minimum of \$8.0 million in energy initiatives in 2022.
2022 Performance	Killam exceeded its target, investing \$8.5 million in energy-efficiency initiatives in 2022.

2023 Strategic Targets

Growth in Same Property NOI	
2023 Target	Achieve same property NOI growth averaging 3.0% – 5.0%.
Capital Recycling	
2023 Target	Sell a minimum of \$100 million of non-core assets.
Geographic Diversification	
2023 Target	Earn at least 36% of 2023 NOI outside Atlantic Canada.
Development of High-Quality Properties	
2023 Target	Complete construction of two development projects and break ground on one additional development in 2023.
Strengthened Balance Sheet	
2023 Target	Reduce debt as a percentage of total assets to below 45%.
Sustainability	
2023 Target	Invest a minimum of \$8.0 million in energy initiatives in 2023.

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Outlook

Strong Demand for Rental Housing Expected to Drive Market Rents Higher

Killam expects strong demand for apartments to continue in 2023, resulting in increasing market rents and maintaining high occupancy across the portfolio. Management expects to increase rents to market rates as units turn and are released, which is expected to lead to continued top-line growth. For renewals, 2023 rent growth is likely to be tempered by government-imposed rental rate restrictions in four of Killam's core markets, namely Ontario (capped at 2.5% in 2023), Nova Scotia (capped at 2.0% in 2023), British Columbia (capped at 2.0% in 2023) and Prince Edward Island (rental increases not allowed in 2023). Canada recently updated its immigration target to welcome 465,000 new permanent residents in 2023, 485,000 in 2024 and 500,000 in 2025, which is expected to further contribute to the strong demand for apartments and mark-to-market opportunities.

Continued Expansion of Unit Repositioning Program

Management is committed to Killam's unit repositioning program, completing 617 repositions in 2022, and plans to complete a minimum of 450 additional units in 2023, down compared to 2022 due to lower expected turnover. Killam is improving repositioning efficiencies and targeting improved performance metrics, including the percentage of repositionings completed in 28 days. Unit upgrades costing more than \$10,000 are considered repositioned, and Killam targets a return on investment (ROI) of at least 10%. Killam has been successful and will continue to mitigate construction cost increases through the use of bulk purchasing, as well as the use of in-house labour. Killam has over 5,500 units that are eligible for repositioning as they come vacant.

Inflation and Higher Operating Expenses

Killam monitors inflation given the risk of increasing operating and capital costs. Approximately 58% of Killam's units are heated with natural gas, and fluctuations in natural gas pricing impacts Killam's operating costs. Domestic and international gas markets continue to experience volatility which is expected to lead to higher year-over-year energy costs in 2023. Investments in energy and water-saving initiatives, as well as operational efficiencies, are expected to help offset a portion of rising operating costs. Management expects to invest a minimum of \$8.0 million in energy-related projects in 2023. These projects should contribute to same property NOI growth by reducing consumption and also improve Killam's sustainability metrics. Inflationary pressures are expected to result in higher than normal increases in general operating expenses, including contract services and repairs and maintenance.

Positive Same Property NOI Expected

Despite inflationary pressures, Killam expects top-line revenue growth to drive same property NOI growth in 2023. Management's target for NOI growth in 2023 is 3.0%–5.0%.

Population Growth and Opportunity in Halifax

Halifax, which contributed 33.5% of Killam's NOI in 2022, has experienced acceleration in population growth over the past few years. Halifax's population grew by 2.1% in 2021, followed by 4.5% in 2022, with a record number of interprovincial migrants moving to the city. Halifax's age profile is also shifting downward. In 2022, for the third consecutive year, the largest age group of newcomers that moved to Halifax was the 25–39 age group, accounting for 36% of the city's population growth. These trends are projected to continue in 2023, increasing demand for apartments in the region. Per the Canadian and Mortgage Housing Corporation (CMHC) Rental Market Report based on data as of October 2022, Halifax had both record low vacancy as well as some of the highest leasing spreads on turnover in the country.

\$94 Million of Developments Expected to be Completed in 2023

Development remains an important component of Killam's growth strategy, and Killam expects to complete \$94 million in development projects in 2023, with another project expected to be completed in 2024. The completion and stabilization of these projects is expected to contribute positively to Killam's future FFO per unit growth. Killam has a robust development pipeline of over 4,200 units, with 70% of the future projects located outside of Atlantic Canada.

Increased Borrowing Costs on Mortgage Renewals

Killam has \$276.5 million of mortgages maturing in 2023, with an average interest rate of 3.07%, and a further \$308.7 million maturing in 2024, with an average interest rate of 2.56%. With current borrowing costs above these levels, Management anticipates higher interest expense on refinancings. Management has diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered maturity dates to mitigate interest rate risk. Killam's mortgage maturity schedule is included on page 36. Killam expects to reduce its variable rate interest expense in 2023. Management is focused on reducing its variable rate debt through the placement of permanent fixed rate mortgages on its completed developments, increased CMHC insured mortgages on its existing portfolio, and from its planned capital recycling program. Management is committed to reducing debt as a percentage of total assets to 45% or below in 2023.

2022 Management's Discussion and Analysis

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

PART III

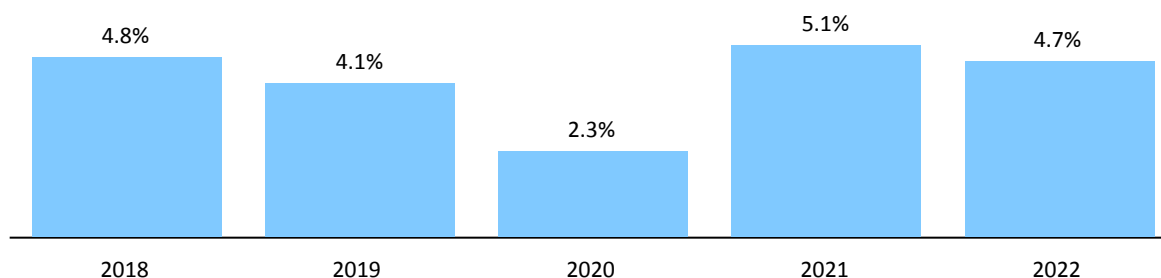
Business Strategy

Increase Earnings From the Existing Portfolio

Killam increases the value of its portfolio by increasing revenue and managing expenses. To achieve NOI growth, Killam must manage three critical factors: occupancy, rental rates and operating costs. Killam focuses on providing superior employee training and customer service, using technology and analytics to drive leasing and marketing, and completing unit renovations and repositionings to maximize revenue on unit turnover. Operating cost management is focused on energy efficiencies, technology investments, economies of scale, risk management, and staff and tenant education.

Killam has increased same property NOI by an average of 3.2% per annum over the past decade; in the last five years, Killam has averaged 4.2% growth.

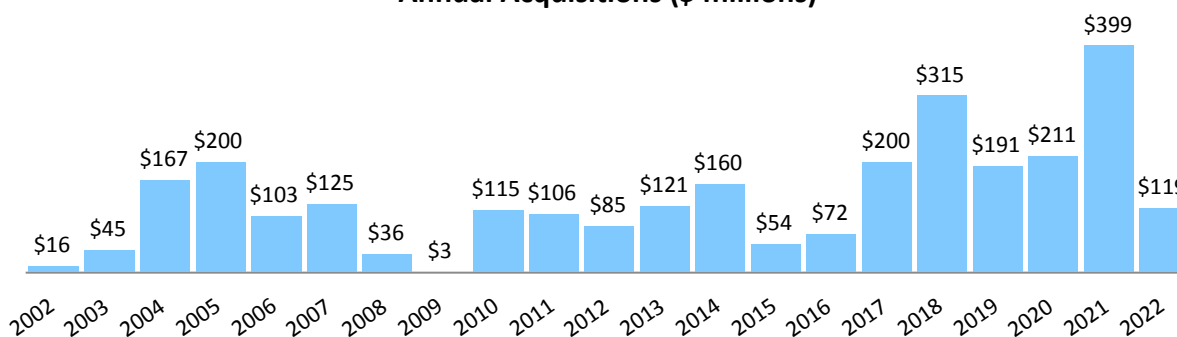
Historic Same Property NOI Growth



Expand the Portfolio through Acquisitions

Killam owns and operates one of Canada's newest apartment portfolios. Newer properties require less maintenance capital to operate and are generally preferred by tenants. Killam also acquires well-maintained, well located, older properties that offer attractive earnings potential. Killam continues to expand its portfolio by acquiring well-located assets in Ontario, Alberta and British Columbia, and continues to add to its established portfolio in Atlantic Canada. Acquisition activity varies by year depending on opportunities and access to capital. Killam acquired \$118.6 million in assets in the first half of 2022; however, following rising interest rates and economic uncertainty, Management made the decision to slow its acquisition program in the second half of the year.

Annual Acquisitions (\$ millions)



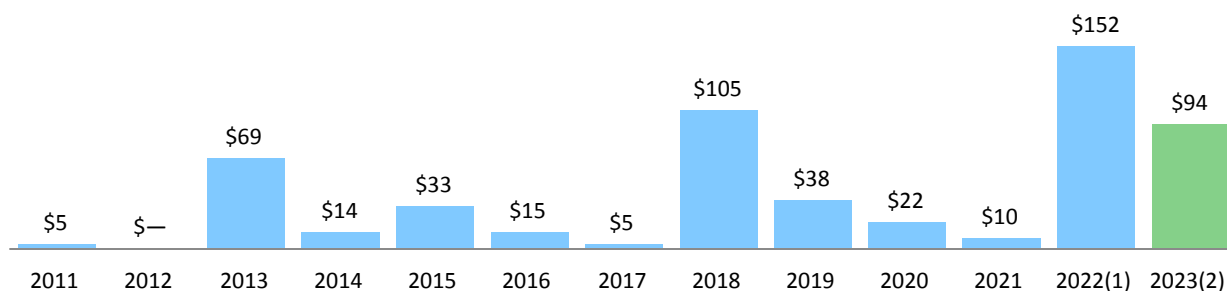
2022 Management's Discussion and Analysis

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

Develop High-Quality Properties in Core Markets

Killam enhances its organic and acquisition growth with development. Killam started developing apartment properties in 2010 and has completed sixteen projects to date, investing \$467 million to construct 1,807 units (1,505 units, when counting Killam's 50% interest in joint arrangement developments). Killam has an experienced development team who hold architectural and engineering degrees and oversee all projects. New property construction enables Killam to control the quality and features of its buildings. Killam targets building at a 50–150 bps discount to the market capitalization rates (cap-rates) on completion, creating value for its unitholders. Killam currently has a development pipeline of approximately 4,200 units.

Apartment Developments Complete (\$ millions)



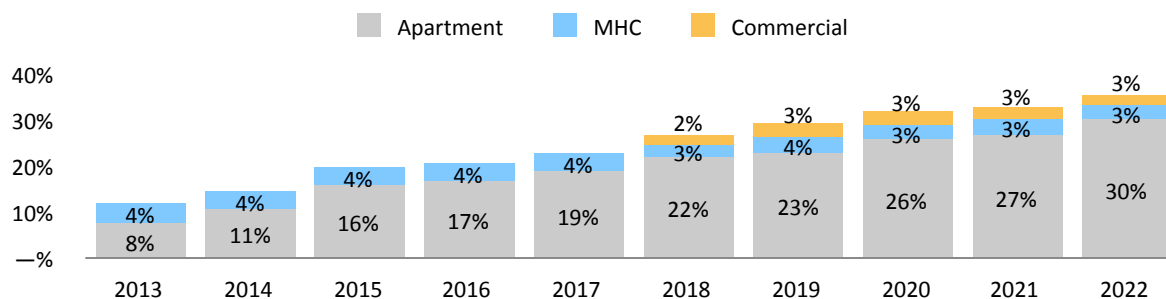
(1) In 2022, there were two completed developments in which Killam has a 50% ownership; as such, only Killam's portion of related development costs has been included in this total.

(2) Developments expected to be completed in 2023.

Diversify Geographically Through Accretive Acquisitions

Geographic diversification is a priority, and Killam is focused on increasing the amount of its NOI generated outside Atlantic Canada. Killam is targeting expansion in select markets, such as Ottawa, the Greater Toronto Area, Southwestern Ontario, Calgary, Edmonton and Victoria. Killam's strong operating platform can support a larger and more geographically diverse portfolio. Increased investment in Ontario and Western Canada will enhance Killam's diversification and exposure to larger urban centres with high rates of population growth. In 2022, 35.8% of Killam's NOI was generated outside Atlantic Canada, 280 bps higher than in 2021.

% of Killam's NOI Generated Outside Atlantic Canada



2022 Management's Discussion and Analysis

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

Committed to ESG

Killam's core values of Build Community and Do the Right Thing guide its commitment to ESG programs and initiatives. Killam believes that effective corporate governance is critical to its continued and long-term success and contributes to maximizing unitholder value. The Trustees know that commitment to sound governance practices is in the best interest of Killam stakeholders and contributes to effective and efficient decision-making.

Killam has a long history of investing in energy efficiencies. Starting in 2016, Killam commenced a five-year, \$25.0 million energy-efficiency program focused on reducing its greenhouse gas emissions, gaining operating efficiencies and lowering operating costs. In the past five years, Killam's green projects include the installation of solar panels, installation of electric vehicle (EV) chargers, air-sealing apartment units, installation of low-flow toilets and LED lighting retrofits across the entire apartment portfolio. This is in addition to the installation of solar, EV chargers and geothermal heating systems in new development projects. Killam has identified over \$30.0 million of energy-efficiency projects throughout its portfolio and is committed to investing annually in the program.

Giving back has always been an important part of being a responsible corporate citizen at Killam. Killam invests in its communities through various programs and initiatives, including partnering with non-profit housing agencies to provide more than 850 subsidized apartment units throughout its portfolio. The focus on fostering a sense of community is a priority at Killam. Killam has a long-term target to increase the number of subsidized affordable housing units in its portfolio by 20% between 2020 and 2025.

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

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

Sustainability Policy

Killam has a sustainability policy detailing its commitment to ESG practices. The policy applies to all Killam employees, and it is supported by the Governance and ESG Committee and approved by the Board of Trustees. The following outlines Killam's commitment to ESG through its ESG policy:

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

Killam's 2022 ESG Progress

Killam made solid progress towards all of its ESG targets in 2022. Killam invested \$8.5 million in energy-efficiency projects. This included its sixth geothermal heating and cooling system, increasing its total unit count using geothermal technology to 1,021 apartment units. As of December 31, 2022, Killam has 17 photovoltaic solar arrays producing power, with an expected 1,716 MWh of annual energy production. This is the equivalent amount of energy to supply 324 apartment units with electricity annually, based on the average consumption per unit in Killam's apartment portfolio. With these initiatives, Killam will benefit from reduced energy consumption and reduced greenhouse gas emissions in the years to come. Additionally, Killam is rolling out Level II EV charging stations across its portfolio, with 151 charging stations installed at 22 properties to date, plus an additional 103 charging stations at 15 different properties underway.

Killam continues to pursue building and healthy-living certifications for its apartment units, and in 2022 it earned certifications for 1,500 additional units. Killam began piloting building program certifications in 2021, and has earned a total of 2,488 apartment unit certifications to date, representing 12.7% of its apartment portfolio. Ensuring its buildings have the best operating and healthy living standards for Killam's residents is inherent with these certification practices, and Killam has recognized many benefits from implementing these certifications. Killam has a long-term target to pursue green building health and operating certifications across a minimum of 20% of its portfolio by 2025.

Killam recognizes that housing affordability is a challenge in Canada and is committed to doing its part. Killam supports affordable housing with more than 850 subsidized suites in its apartment portfolio, and maintains average rent in each market well below the 30% threshold of median household income for that specific market, which is the affordability threshold used by CMHC. Killam is pleased to report that it once again achieved a strong 86% resident satisfaction score for 2022 in a survey performed by Narrative Research, a third-party provider.

As well, Killam successfully increased its global real estate sustainability benchmark (GRESB) rating, earning a green, three-star designation for its 2022 real estate assessment, a 15% score improvement from its 2021 rating. Killam also earned a GRESB Public Disclosure survey rating of "A", outperforming its GRESB-determined comparison group and global ratings.

Finally, Killam is committed to its climate change journey, reporting under the Task Force on Climate-Related Financial Disclosure framework and with a commitment to increasing its climate change initiatives and disclosure in the coming years.

2022 Management's Discussion and Analysis

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

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolios by market as at December 31, 2022:

Apartment Portfolio				
	Units ⁽¹⁾	Number of Properties	NOI (\$) ⁽²⁾	NOI ⁽²⁾ (% of Total)
Nova Scotia				
Halifax	5,847	67	\$59,941	29.0%
Sydney	139	2	\$1,467	0.7%
	5,986	69	\$61,408	29.7%
New Brunswick				
Moncton	2,246	39	\$18,425	8.9%
Fredericton	1,529	23	\$13,421	6.5%
Saint John	1,202	14	\$7,789	3.7%
Miramichi	96	1	\$707	0.3%
	5,073	77	\$40,342	19.4%
Ontario				
Ottawa	1,592	11	\$11,856	5.7%
London	523	5	\$5,894	2.8%
Kitchener-Waterloo-Cambridge-GTA	1,839	13	\$21,329	10.3%
	3,954	29	\$39,079	18.8%
Newfoundland and Labrador				
St. John's	955	13	\$7,971	3.9%
Grand Falls	148	2	\$804	0.4%
	1,103	15	\$8,775	4.3%
Prince Edward Island				
Charlottetown	1,163	24	\$9,448	4.6%
Summerside	86	2	\$589	0.3%
	1,249	26	\$10,037	4.9%
Alberta				
Calgary	764	4	\$7,619	3.7%
Edmonton	882	6	\$9,323	4.5%
	1,646	10	\$16,942	8.2%
British Columbia				
Victoria	516	5	\$6,842	3.3%
Total Apartments	19,527	231	\$183,425	88.6%
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI (\$) ⁽²⁾	NOI ⁽²⁾ (% of Total)
Nova Scotia	2,850	18	\$5,295	2.5%
Ontario	2,284	17	\$6,166	3.0%
New Brunswick ⁽³⁾	671	3	\$758	0.4%
Newfoundland and Labrador	170	2	\$401	0.2%
Total MHCs	5,975	40	\$12,620	6.1%
Commercial Portfolio ⁽⁴⁾				
	Square Footage ⁽⁵⁾	Number of Properties	NOI (\$) ⁽²⁾	NOI ⁽²⁾ (% of Total)
Prince Edward Island ⁽⁵⁾	383,222	1	\$2,632	1.3%
Ontario	311,106	2	\$5,062	2.5%
Nova Scotia ⁽⁶⁾	218,829	5	\$2,736	1.3%
New Brunswick	33,215	1	\$437	0.2%
Total Commercial	946,372	9	\$10,867	5.3%
Total Portfolio		280	\$206,912	100.0%

(1) Unit count includes the total unit count of properties held through Killam's joint arrangements. Killam has a 50% ownership interest in apartment properties in Ontario, representing a proportionate ownership of 672 units of the 1,343 units in these properties. Killam manages the operations of all the co-owned apartment properties.

(2) For the year ended December 31, 2022.

(3) Two of Killam's New Brunswick MHC communities have seasonal operations, which typically commence in mid-May and run through the end of October.

(4) Killam also has 181,117 SF of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.

(5) Square footage represents 100% of the commercial property located in PEI.

(6) Square footage includes Killam's 50% ownership interest in two office properties that are third-party managed.

2022 Management's Discussion and Analysis

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

Unique Portfolio Features

Atlantic Canada's Market Leader

Killam is the largest multi-residential property owner in Atlantic Canada, which provides advantages, including brand recognition, a diverse selection of apartments in each city, improved operating margins from economies of scale and the ability to attract and retain top management personnel.

Diversified Exposure to Rent Control

Approximately 40% of Killam's portfolio is not impacted by rent control restrictions, which provides Killam the opportunity to move rents to market rates in these regions. There is no rent control in New Brunswick, Newfoundland and Labrador and Alberta. Killam is also not restricted on rental increases for its commercial or seasonal resort properties.

Prince Edward Island

Prince Edward Island, representing 5.5% of Killam's apartment NOI, is subject to rent control. The government put forward legislation that prevents property owners from increasing rent in 2023; however, to mitigate the financial impact, the government subsequently announced a rental unit property tax subsidy to help offset increasing costs for property owners associated with the 2023 rental freeze. The subsidy aims to provide relief on provincial property taxes payable in 2023.

Nova Scotia

Killam's Nova Scotia portfolio accounts for 33.5% of apartment NOI. In November 2020, the province announced a temporary rent restriction measure, limiting rental increases on lease renewals to 2.0% in place until the end of 2023. Nova Scotia has rent control for MHCs; however, it does not apply on turnover.

Ontario

Killam's Ontario portfolio, accounting for 21.3% of apartment NOI, is subject to rent control. Rental rate increases were capped at 1.2% in 2022 and are capped at 2.5% in 2023. However, property owners can move rents to market on a unit-by-unit basis as they become vacant. Rent control also does not apply to new construction in Ontario completed after November 25, 2018. Ontario also has rent control for MHCs.

British Columbia

British Columbia, making up 3.7% of Killam's apartment NOI, also has rent control in place. Rental rate increases were capped at 1.5% in 2022 and are capped at 2.0% in 2023.

In all of the regions impacted by permanent rent control, owners may apply for above-guideline increases to offset significant capital expenditures. Killam analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to optimize rents on renewals and on turns.

CMHC-Insured Debt Available for Killam's Apartment Portfolio

Apartment owners are eligible for CMHC mortgage loan insurance. These policies eliminate default risk for lenders, resulting in lower interest rates than those available for conventional mortgages. Approximately 77.2% of Killam's apartment debt is currently CMHC-insured. As mortgages are renewed and new properties are financed, Killam expects to increase the percentage of apartment mortgages with CMHC-insured debt. CMHC insurance is not available for commercial properties or the owners of MHCs; however, CMHC financing is available to manufactured home owners, increasing the affordability of these manufactured homes.

A Focus on Affordable Housing

Killam supports affordable housing with more than 850 subsidized affordable suites through community and government partnerships, representing approximately 5% of its apartment portfolio. In addition, Killam's average rent in each market is well below the 30% threshold of median household income for that specific market, which is the affordability threshold used by CMHC. Killam's MHC portfolio also provides an affordable living alternative for a single-family home, with average monthly land rent being \$290 per site. Killam has a 2025 goal to increase its number of subsidized affordable apartment units by 20%, from its base of 750 in 2020 and has already committed 40% affordability at two properties under CMHCs MLI select program in early 2023.

Providing High Quality Customer Service

Annually, Management engages an independent market research firm to measure tenants' satisfaction through an online survey (4,171 respondents in 2022). Killam's 2022 survey results support its focus on service, with tenants giving Killam an impressive 86% overall satisfaction rating. Killam takes pride in offering tenants well-maintained properties, responding to service requests in a timely manner and providing an attractive housing value proposition. In-house educational programs and adoption of new technology enhance employees' skills to better provide exemplary service to current and prospective tenants.

Geographic Diversification

Killam is focused on increasing its geographic diversification through the acquisition and development of properties in its core markets in Ontario, Alberta and British Columbia. Killam's Ontario apartment portfolio consists of 3,954 apartment units, up from 225 units in 2010 when Killam first entered the market, and includes properties in Ottawa, Toronto, London, Guelph and Kitchener-Waterloo-Cambridge. During 2022, Killam added 108 units to its Ontario portfolio through acquisitions, and 316 units (Killam's portion of ownership) through the completion of three developments. Killam also owns a portfolio of 1,646 units in Calgary and Edmonton. In January 2020, Killam acquired its first apartment property in Greater Victoria and now owns 516 units in the province. Killam added 49 units to its Victoria portfolio in Q1-2022, and 150 units located in Courtenay, BC, in Q2-2022. In addition to apartments, 38% of Killam's MHC sites and 33% of Killam's commercial square footage is located in Ontario.

2022 Management's Discussion and Analysis

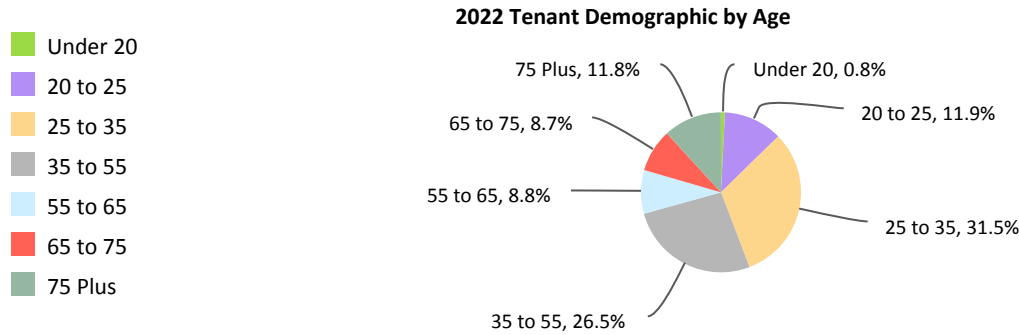
Dollar amounts in thousands of Canadian dollars (except as noted)

Mark-to-Market Rent Opportunity

Management estimates market rental rates are approximately 10–20% higher than Killam's total apartment weighted average rent. The differential between market and in-place rents reflects Killam's relative affordability within its markets, as well as opportunities for rental increases when turnover arises.

Diverse Tenant Demographics Contribute to Stable Occupancy

Killam's tenant base includes a diverse mix of tenants, including young professionals, seniors, empty nesters, families, and students. The diversity of Killam's tenant base is expected to contribute to continued stable occupancy. The following chart illustrates Killam's 2022 tenant demographic by age.



Core Market Update

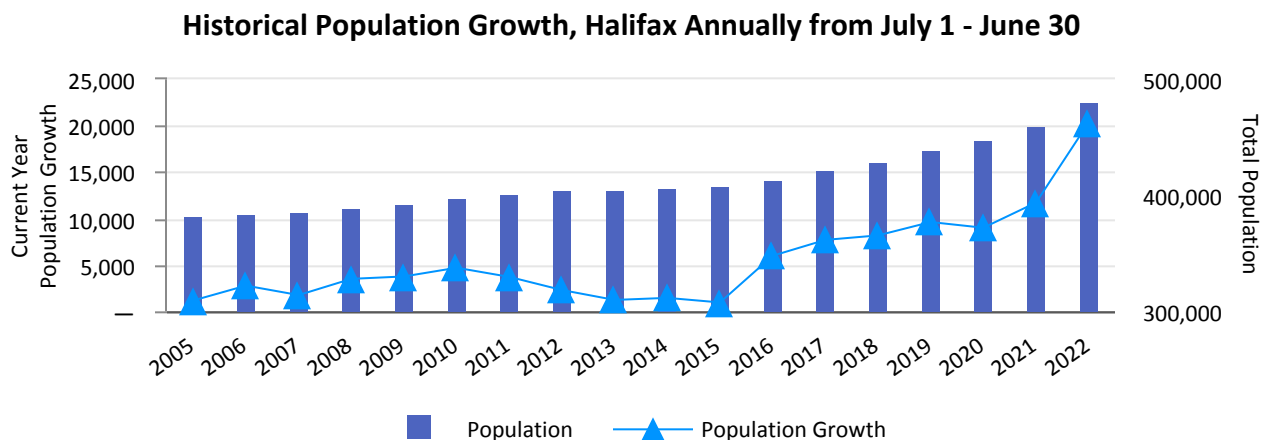
Halifax

Twenty-nine percent of Killam's NOI was generated by its Halifax apartment properties for the year ended December 31, 2022. Halifax is the largest city in Atlantic Canada and is home to 19% of Atlantic Canadians. Halifax's diverse economy generates 56% of Nova Scotia's GDP and is home to 47% of the province's population. With six degree-granting universities and three large college campuses, Halifax has approximately 35,560 full-time students, including 7,290 international students. Halifax's employment base is diversified, with the largest sectors focused on public service, health care, education, and retail and wholesale trade. Halifax is home to the largest Canadian Forces Base by number of personnel, and the Department of National Defence is the city's single largest employer. There is also tremendous opportunity to leverage science and technology in Canada's ocean sectors, furthering the knowledge-based ocean economy. Canada's Ocean Supercluster aims to build Canada's ocean economy into one of the country's most significant and sustainable economic segments through federal government and private sector co-investment. Over 300 companies are participating in ocean-sector businesses in Nova Scotia, with more than 80 innovators of new, high-tech products and services.

According to CMHC's Rental Market Report, the city's rental market totals 56,100 units, with an additional 5,920 rental units currently under construction. Halifax's vacancy rate remained at a record low of 1.0% in 2022, consistent with the rate in 2021, and down from 1.9% in 2020. This was the second lowest vacancy rate in Canada and can be attributed to the city's rising population and lack of housing availability, specifically in the city's downtown core. CMHC reported that the average monthly rent increased 8.9% in 2022, the highest single-year increase and four times above the average historical growth rate.

Scotiabank's December 2022 provincial analysis report noted that Halifax has seen a recent surge in interprovincial migration. The economic outlook notes that this recent increase in population has brought robust growth to the housing sector. Though rising interest rates have resulted in a housing downturn, residential construction investment is still tracking strong growth and is well above the national average. Scotiabank expects construction activity to continue in 2023, with solid demand from the rising population.

The following chart summarizes Halifax's population growth from 2005 to 2022:



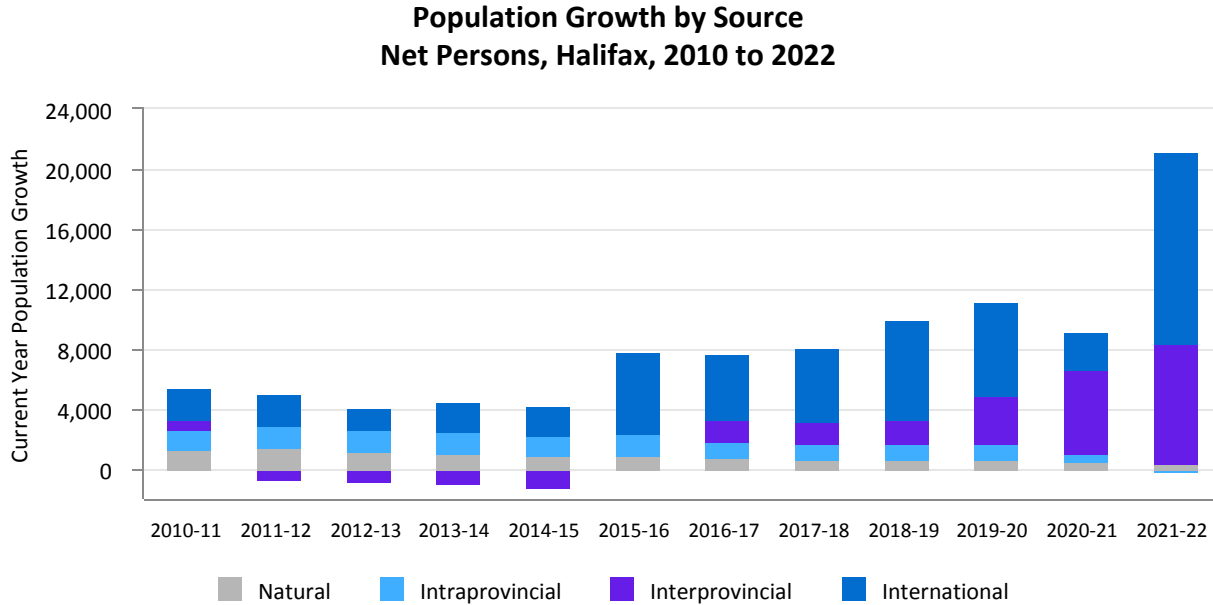
Source: Statistics Canada

2022 Management's Discussion and Analysis

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

Between July 1, 2021 and June 30, 2022, Halifax's population grew by 4.5%, the largest annual increase the city has seen in decades. This growth rate is the second-fastest across Canada's 35 largest cities, behind only Moncton, and is driven by immigration and urbanization. During this period, international migration was the largest source of new residents, representing 60% of the total, while interprovincial migration represented 38%. This is the highest number of interprovincial migrants Halifax has ever seen. Net natural growth contributed 2% of the growth in this period, while intraprovincial migration contributed a loss of less than 1% in the population growth.

The following chart summarizes Halifax's population growth by source from 2010 to 2022:



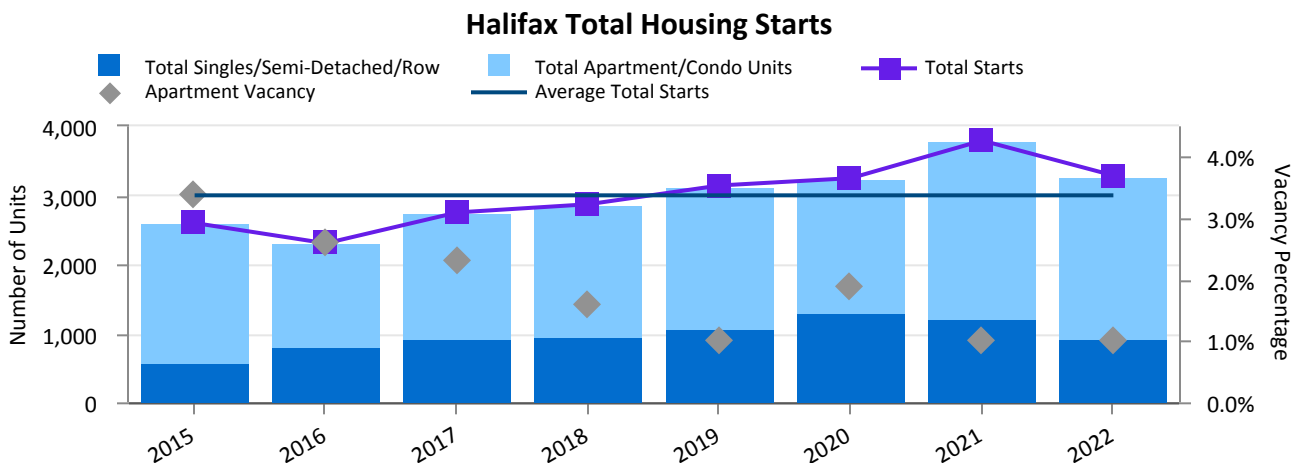
Source: Statistics Canada

For the year ended December 31, 2022, Statistics Canada estimated total net population growth in Nova Scotia to be over 32,500, which included the highest net interprovincial migration to Nova Scotia in over ten years. In 2022, Nova Scotia's population also passed the one million mark.

RBC's December 2022 Provincial Outlook details that Nova Scotia's rapidly expanding population will help cushion the economy against a recession. Due to high inflation and increased interest rates, consumer spending is expected to dip in 2023, contributing to slowing economic growth from a forecasted 2.0% GDP growth rate in 2022 to 1.2% in 2023. With the recent record levels of international and interprovincial newcomers, the arrival of younger migrants has helped rejuvenate the population, with the median age dropping from 45.1 years in 2018 to 44.2 years in 2022. This increase in working-age migrants has helped the province meet the demands of employers, and is expected to support employment growth through 2023.

In response to an increasing population, there has been an increase in housing starts over the last five years. Despite this supply increase, housing prices were up an average of 16.1% in 2022 compared to 2021.

The following chart summarizes Halifax's housing start activity from 2015 to 2022:



Source: CMHC

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

New Brunswick

Nineteen percent of Killam's NOI was generated by apartments in New Brunswick's three major urban centres – Fredericton, Moncton and Saint John – for the year ended December 31, 2022. Fredericton is the provincial capital and home to the province's largest university and a significant public-sector workforce. Moncton is the province's largest city and is a transportation and distribution hub for Atlantic Canada. Given the relatively affordable cost of living, New Brunswick has become a destination for both Canadians and newcomers.

The province saw an increase in net migration from other provinces, and the second highest percentage of net non-permanent residents in Canada in 2022, as noted in RBC's December 2022 Provincial Outlook report. Moncton's population grew by 5.3% between July 1, 2021 and June 30, 2022, the highest growth rate across Canada's 35 largest cities, as measured by Statistics Canada. According to CMHC, New Brunswick's vacancy was 1.9% in 2022, compared to 1.7% in 2021.

According to Scotiabank's December 2022 provincial analysis report, declining exports and weaker demand from the US and Europe will impact New Brunswick's economic growth in 2023; however, economic growth is estimated to be above the national average. Scotiabank further notes that the province has the lowest debt-to-disposable income ratios in the country, which will help support consumption in a high-interest-rate environment. RBC's December 2022 Provincial Outlook report agreed with this analysis, forecasting New Brunswick's GDP growth to be 1.1% in 2023, compared to a projected 2.1% in 2022.

St. John's, Newfoundland

Four percent of Killam's NOI was generated by apartments in St. John's, Newfoundland for the year ended December 31, 2022. RBC's December 2022 Provincial Outlook notes that increased oil and mining production coupled with a growing population is expected to stimulate demand for goods and services within the province in 2023. RBC forecasts the GDP growth rate in Newfoundland to be 1.8% in 2023, higher than the projected 0.9% in 2022. Following five consecutive years of declines in population, 2022 saw record immigration and the resumption of positive net interprovincial migration flows in Newfoundland, boosting population growth to a 12-year high at 1.3%, as measured by Statistics Canada. RBC expects this trend to continue in 2023 in part thanks to Canada's increased immigration targets. Improved demographics will further sustain stronger demand for goods and services, as well as housing in the region.

Prince Edward Island

Five percent of Killam's NOI was generated by apartments in Prince Edward Island for the year ended December 31, 2022. According to RBC's December 2022 Provincial Outlook report, PEI's economic outlook is positive, with a forecasted GDP growth rate of 1.3% in 2023, compared to a projected 2.3% in 2022. Low levels of household debt coupled with a booming population are expected to support household spending and residential investment in the province. In 2022, the province welcomed its largest number of migrants on record, with the population growing 3.8%, as measured by Statistics Canada. RBC notes that population growth on the island is on track to be the fastest among the provinces for a sixth consecutive year in 2023. This surge in population is making a material impact on household consumption, and has resulted in retail sales increasing more than 20% from their pre-pandemic levels. Additionally, vacancy has decreased in the region, down 40 bps to 0.9% in 2022, compared to 1.3% in 2021, as reported by CMHC.

Ontario

Killam's Ontario apartment portfolio generated 18.8% of its NOI for the year ended December 31, 2022. RBC's December 2022 Provincial Outlook notes that rising interest rates and a higher cost of living in Ontario are expected to result in economic tightening in the province. Ontario continues to be driven by advances in the healthcare industry and activity in real estate and professional services industries. Although residential activity has been strong, RBC reports this is expected to slow and decline due to high inflation and rising interest rates. These financial pressures are expected to slow household spending in 2023, causing challenges for businesses. RBC forecasts Ontario's GDP to decline by 0.1% in 2023, compared to a projected growth rate of 3.2% in 2022. However, this decline is not expected to continue, with a growth rate of 1.1% forecasted in 2024. According to CMHC, Ontario's vacancy rate decreased to 1.8% in 2022, down from 3.4% in 2021.

Alberta

Eight percent of Killam's NOI was earned in Alberta for the year ended December 31, 2022. According to RBC's December 2022 Provincial Outlook report, Alberta is expected to achieve a GDP growth rate of 1.9% in 2023, the highest among the provinces, compared to a projected 4.9% in 2022. This growth is driven by the massive upswing in global energy markets, which RBC expects to continue in 2023, at least in the short term. Scotiabank's December 2022 provincial analysis report noted that drilling activity has trended higher in 2022, and that the Alberta Energy Regulator expects oil and gas capital spending to increase by 56% in 2023 and remain above levels preceding the pandemic. The completion of the region's Trans Mountain pipeline expansion will also increase the transportation capacity for crude oil, and will open up new export avenues in the coming year. However, RBC notes that soaring interest rates and elevated inflation are expected to weigh on household and business spending in 2023. Alberta's housing sector is poised to remain buoyant in 2023, largely due to the region's increasing population. Statistics Canada reports that Alberta's population grew by 3.0% in 2022, the highest level since 2013–2014. This has led to decreased vacancy in Alberta, which is down 280 bps to 3.7% in 2022, compared to 6.5% in 2021, as reported by CMHC.

British Columbia

Killam earned 3.3% of its NOI in the British Columbia market for the year ended December 31, 2022. RBC's December 2022 Provincial Outlook reported British Columbia's forecasted GDP growth rate to be 0.3% in 2023, compared to a projected 3.1% in 2022. This decrease in growth is attributed to higher interest rates and inflation, decreasing household spending in the region. RBC notes that British Columbians carry the heaviest debt loads in Canada, making them especially sensitive to interest rate increases. However, record immigration flowing into the province is expected to boost residential capital investment, as builders, developers and policymakers address long-standing supply issues. Statistics Canada reported that British Columbia's population grew by 2.5% in 2022, and housing starts are projected to ramp up to 49,800 units in 2023, from 48,000 units in 2022. Additionally, vacancy has decreased modestly in the region, down 10 bps to 1.3% in 2022, compared to 1.4% in 2021, as reported by CMHC.

2022 Management's Discussion and Analysis

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

PART IV

2022 Operational and Financial Results

Consolidated Results

For the years ended December 31,

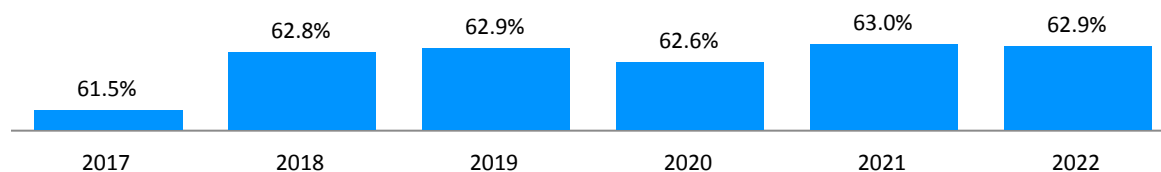
	Total Portfolio			Same Property ⁽¹⁾		
	2022	2021	% Change	2022	2021	% Change
Property revenue	\$328,847	\$290,917	13.0%	\$287,970	\$274,386	5.0%
Property operating expenses						
General operating expenses	52,308	47,482	10.2%	45,625	44,027	3.6%
Utility and fuel expenses	30,106	24,683	22.0%	26,152	23,078	13.3%
Property taxes	39,521	35,517	11.3%	33,875	33,143	2.2%
Total operating expenses	\$121,935	\$107,682	13.2%	\$105,652	\$100,248	5.4%
NOI	\$206,912	\$183,235	12.9%	\$182,318	\$174,138	4.7%
Operating margin %	62.9%	63.0%	(10) bps	63.3%	63.5%	(20) bps

(1) Same property results exclude acquisitions and developments completed during the comparable 2022 and 2021 periods, which are classified as non-same property. For the year ended December 31, 2022, NOI contributions from acquisitions and developments completed in 2022 and 2021 were \$28.3 million. For the year ended December 31, 2021, NOI contributions from acquisitions and developments completed in 2021 were \$12.2 million.

Killam achieved strong overall portfolio performance for the year ended December 31, 2022. Revenues grew by 13.0%, offset by increases in total operating expenses of 13.2%, due to strong same property performance along with contributions from acquisitions and developments. Overall NOI grew by 12.9% for the year. Same property results include properties owned during comparable 2022 and 2021 periods. Same property results represent 85.8% of the fair value of Killam's investment property portfolio as at December 31, 2022. Non-same property results include acquisitions, dispositions and developments completed in 2021 and 2022 and commercial assets acquired for future residential development.

Same property revenue grew by 5.0% for the year ended December 31, 2022, compared to the same period in 2021. This growth was driven by a 130 bps increase in apartment occupancy due to strong market conditions, rental rate growth and growth in both seasonal MHCs and commercial revenues. Total same property operating expenses increased 5.4% for the year ended December 31, 2022, below the average rate of inflation of 6.8% in Canada during 2022. This change was driven by significant increases in natural gas pricing across Killam's portfolio, which contributed to a 13.3% increase in utility and fuel expenses for the year. Same property general operating expenses and property taxes increased modestly by 3.6% and 2.2% for the year, respectively. Overall, same property NOI grew by 4.7% for the year ended December 31, 2022.

Operating Margin % (Total Portfolio)



2022 Management's Discussion and Analysis

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

Apartment Results

For the years ended December 31,

	Total			Same Property		
	2022	2021	% Change	2022	2021	% Change
Property revenue	\$289,790	\$254,955	13.7%	\$255,022	\$243,259	4.8%
Property operating expenses						
General operating expenses	44,452	39,699	12.0%	38,889	37,480	3.8%
Utility and fuel expenses	26,766	21,866	22.4%	23,656	20,847	13.5%
Property taxes	35,147	31,334	12.2%	30,422	29,783	2.1%
Total operating expenses	\$106,365	\$92,899	14.5%	\$92,967	\$88,110	5.5%
NOI	\$183,425	\$162,056	13.2%	\$162,055	\$155,149	4.5%
Operating margin %	63.3%	63.6%	(30) bps	63.5%	63.8%	(30) bps

Apartment Revenue

Total apartment revenue for the year ended December 31, 2022, was \$289.8 million, an increase of 13.7% over the same period in 2021. Revenue growth was augmented by contributions from recently acquired and developed properties. Same property apartment revenue grew by 4.8% for the year ended December 31, 2022, driven by a 130 bps increase in occupancy and increased year-over-year average rent of 3.7%. The operating margin on Killam's same property apartment portfolio for the year ended December 31, 2022, was down 30 bps to 63.5%, mainly caused by above-average increases in utility and fuel expenses.

2022 Management's Discussion and Analysis

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

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

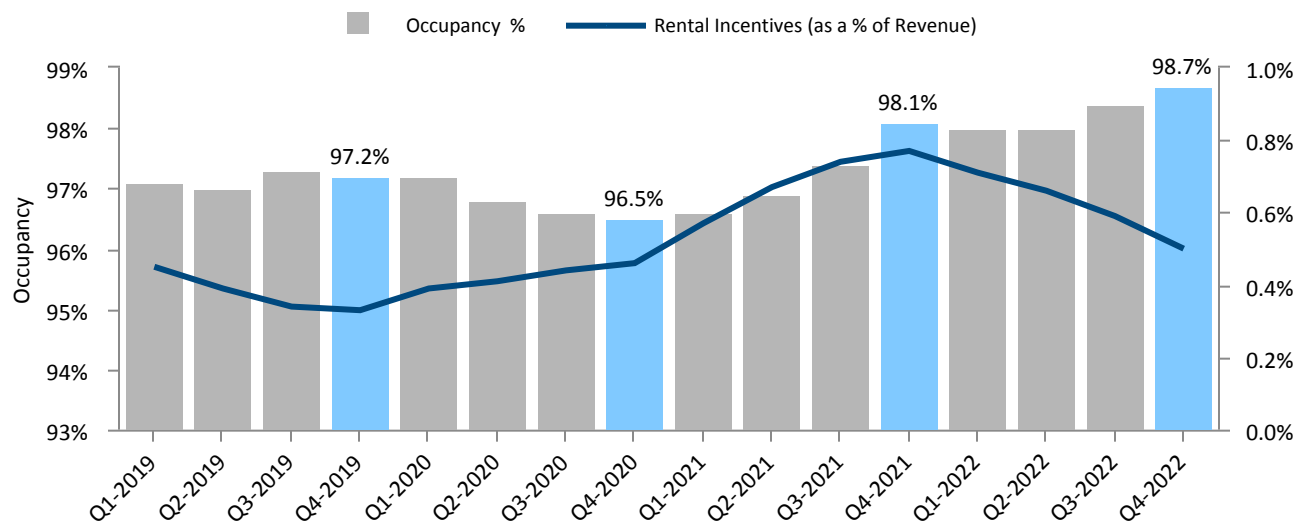
For the years ended December 31,	# of Units	Total Occupancy			Same Property Occupancy		
		2022	2021	Change (bps)	2022	2021	Change (bps)
Nova Scotia							
Halifax	5,986	99.0%	98.2%	80	99.0%	98.1%	90
Ontario							
Ottawa ⁽²⁾	1,592	86.5%	94.0%	(750)	95.8%	94.0%	180
London	523	98.7%	97.3%	140	98.7%	97.3%	140
KWC-GTA	1,839	97.0%	98.7%	(170)	99.2%	98.9%	30
New Brunswick							
Moncton	2,342	98.8%	97.4%	140	99.1%	97.5%	160
Fredericton	1,529	97.6%	97.7%	(10)	97.6%	97.7%	(10)
Saint John	1,202	98.1%	97.7%	40	98.1%	97.7%	40
Newfoundland and Labrador							
St. John's	1,103	95.4%	92.4%	300	95.7%	92.1%	360
Prince Edward Island							
Charlottetown	1,249	99.4%	96.1%	330	99.5%	96.9%	260
Alberta							
Calgary ⁽³⁾	764	97.1%	87.6%	950	96.6%	92.8%	380
Edmonton	882	96.1%	94.0%	210	96.7%	94.1%	260
British Columbia							
Victoria	516	98.4%	97.9%	50	98.3%	97.9%	40
Total Apartments (weighted average)	19,527	97.3%	96.6%	70	98.3%	97.0%	130

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

(2) Total 2022 occupancy for Ottawa was impacted by Latitude and Luma, recently completed development projects undergoing initial lease-up.

(3) Total 2021 occupancy for Calgary was impacted by Nolan Hill, a 233-unit development that was undergoing initial lease-up during the first half of 2021.

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



Killam saw a decrease in rental incentives as a percentage of total revenue in 2022 after an uptick in 2021. Rental incentives decreased in all of Killam's regions during the year except for Ontario and Alberta, which saw increases of 18% and 13%, respectively. Over 60% of the incentives in 2022 were in Alberta. The offering of rental incentives in all regions decreased in the latter part of the year as occupancy rose, and this trend is expected to continue in 2023.

2022 Management's Discussion and Analysis

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

Year-Over-Year Average Rent Analysis by Core Market

As at December 31,

	# of Units	Average Rent			Same Property Average Rent		
		2022	2021	% Change	2022	2021	% Change
Nova Scotia							
Halifax	5,986	\$1,282	\$1,231	4.1%	\$1,281	\$1,231	4.1%
Ontario							
Ottawa	1,592	\$1,909	\$1,818	5.0%	\$1,862	\$1,818	2.4%
London	523	\$1,443	\$1,388	4.0%	\$1,443	\$1,388	4.0%
KWC-GTA	1,839	\$1,524	\$1,421	7.2%	\$1,659	\$1,597	3.9%
New Brunswick							
Moncton	2,342	\$1,121	\$1,082	3.6%	\$1,100	\$1,062	3.6%
Fredericton	1,529	\$1,188	\$1,121	6.0%	\$1,188	\$1,121	6.0%
Saint John	1,202	\$973	\$920	5.8%	\$973	\$920	5.8%
Newfoundland and Labrador							
St. John's	1,103	\$1,006	\$983	2.3%	\$1,010	\$987	2.3%
Prince Edward Island							
Charlottetown	1,249	\$1,116	\$1,106	0.9%	\$1,092	\$1,082	0.9%
Alberta							
Calgary	764	\$1,299	\$1,277	1.7%	\$1,296	\$1,272	1.9%
Edmonton	882	\$1,506	\$1,492	0.9%	\$1,495	\$1,480	1.0%
British Columbia							
Victoria ⁽¹⁾	516	\$1,722	\$1,771	(2.8)%	\$1,858	\$1,771	4.9%
Total Apartments (weighted average)	19,527	\$1,289	\$1,228	5.0%	\$1,264	\$1,219	3.7%

(1) The decline in the average net rent in the Victoria region relates to two acquisitions completed in Q2-2022, consisting of 199 units.

Same Property Rental Increases – Tenant Renewals Versus Unit Turns

The rental increases in the table below reflect rental increases achieved on units renewed or turned for the year ended December 31, 2022, whereas rental increases in the previous section reflect the year-over-year change in average rent by region as at December 31, 2022, compared to December 31, 2021.

Killam historically turned approximately 30%–32% of its units each year; however, turnover has declined over the past three years. Due to the tightening of the housing and rental markets across Canada, turnover levels in 2022 were 22%, down from 26% in 2021.

Upon turn, Killam will typically generate rental increases by moving rental rates to market and, where market demand exists, by upgrading units for unlevered returns of 10%–15% on capital invested. Killam saw a 50 bps increase in its same property weighted average rental increase year-over-year, up from 3.0% in 2021 to 3.5% in 2022. This increase was a result of higher rental increases on both unit turns and lease renewals. The weighted average rental increase on unit turns was up 220 bps to 10.0%, compared to 7.8% in 2021. Continued population growth across Canada continues to drive higher market rents. The chart below summarizes the rental increases earned during the years ended December 31, 2022 and 2021.

For the years ended December 31,	2022		2021	
	Rental Increases	Turnovers & Renewals ⁽¹⁾	Rental Increases	Turnovers & Renewals ⁽¹⁾
Lease renewal	1.8%	78.2%	1.5%	74.1%
Unit turn	10.0%	21.8%	7.8%	25.9%
Rental increase (weighted avg)	3.5%		3.0%	

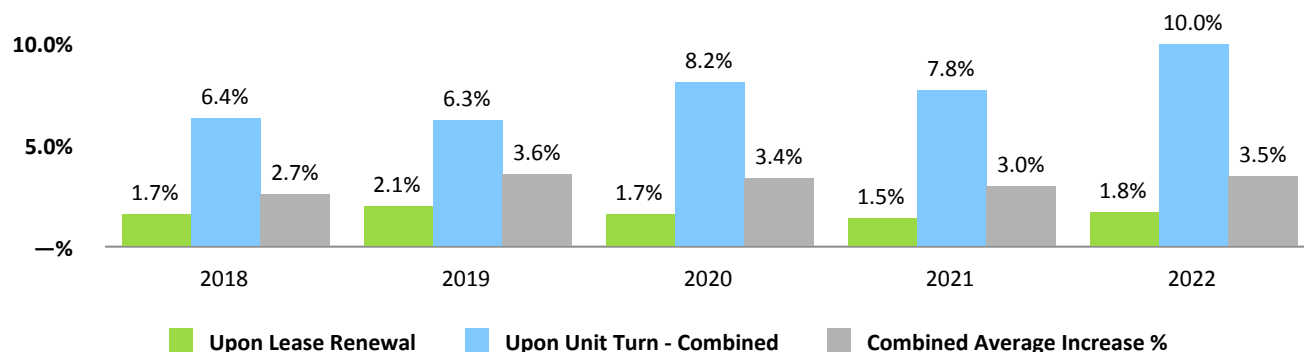
(1) The percentage of total units renewed and turned during the year is based on the number of units at the end of the year.

2022 Management's Discussion and Analysis

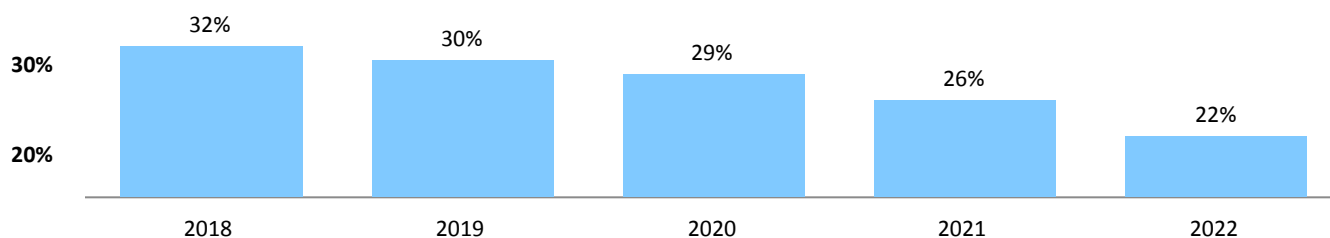
Dollar amounts in thousands of Canadian dollars (except as noted)

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

Apartments - Historical Same Property Rental Rate Growth



Percentage of Units Turned Annually



Apartment Expenses

Total operating expenses for the year ended December 31, 2022, were \$106.4 million, a 14.5% increase over the same period in 2021. The increase was primarily due to incremental costs associated with recent acquisitions and developments, coupled with increased natural gas pricing experienced in 2022.

Total apartment same property operating expenses for the year ended December 31, 2022, were 5.5% higher compared to 2021. This increase was primarily due to higher utility and fuel expenses driven by increased natural gas costs, which were up 35.8% compared to December 31, 2021. Additionally, oil and propane costs increased significantly, up 32.9% for the year ended December 31, 2022.

Property Operating Expenses

Property operating expenses for the apartment portfolio include repairs and maintenance, contract services, insurance, property management and property management wages and benefits, uncollectible accounts, marketing, advertising and leasing costs. The increase in same property general operating costs of 3.8% for the year ended December 31, 2022, was largely due to higher salary costs, increased contract service costs and higher property administration expenses. These increases reflect inflationary cost pressures.

Same Property Utility and Fuel Expenses

For the years ended December 31,

	2022	2021	% Change
Natural gas	\$8,534	\$6,284	35.8%
Electricity	7,442	7,327	1.6%
Water	6,143	6,067	1.3%
Oil & propane	1,463	1,101	32.9%
Other	74	68	8.8%
Total utility and fuel expenses	\$23,656	\$20,847	13.5%

2022 Management's Discussion and Analysis

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

Killam's apartment portfolio is heated with natural gas (56%), electricity (36%), oil (3%), district heat (2%), geothermal (2%) and propane (less than 1%). Electricity costs relate primarily to common areas, as unit electricity costs are typically paid by tenants, reducing Killam's exposure to the majority of Killam's 6,000 apartments heated with electricity. Fuel costs associated with central natural gas or oil-fired heating plants are paid by Killam.

Utility and fuel expenses accounted for approximately 25% of Killam's total apartment same property operating expenses for the year ended December 31, 2022, and increased 13.5% year-over-year.

Same property natural gas costs increased by 35.8% for the year ended December 31, 2022, which was primarily attributable to significant increases in natural gas pricing in all of Killam's core market, compared to the same period in 2021. Consumption of natural gas was up modestly by 0.9% year-over-year due to a colder winter at the beginning of 2022. Colder weather was offset slightly by increased efficiencies from boiler upgrades, contributing to reduced consumption levels.

Electricity costs increased modestly by 1.6% for the year ended December 31, 2022. Increases were moderated due to a reduction of unit electricity being included as part of a tenant's monthly rent in certain regions, given strong market fundamentals, as well as consumption savings from LED lighting retrofits and the installation of solar panels.

Water expenses increased by 1.3% for the year ended December 31, 2022, due to a modest increase in water rates coupled with a 1.8% increase in water consumption during the year.

Heating oil and propane costs increased by 32.9% for the year ended December 31, 2022, compared to 2021. This is the result of increased oil prices, which increased by 60.4% in Prince Edward Island during the year. The majority of Killam's heating oil and propane costs are in Prince Edward Island. This increase was partially offset by increased efficiencies seen from boiler upgrades.

Property Taxes

Same property property tax expense for the year ended December 31, 2022, was \$30.4 million, a 2.1% increase from the same period in 2021. Killam actively reviews its property tax assessments and appeals tax assessment increases wherever possible in order to minimize this impact.

2022 Management's Discussion and Analysis

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

Apartment Same Property NOI by Region

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2022	2021	% Change	2022	2021	% Change	2022	2021	% Change
Nova Scotia									
Halifax	\$93,793	\$89,370	4.9%	(\$32,759)	(\$30,241)	8.3%	\$61,034	\$59,129	3.2%
	93,793	89,370	4.9%	(32,759)	(30,241)	8.3%	61,034	59,129	3.2%
Ontario									
Ottawa	16,291	15,758	3.4%	(5,436)	(5,184)	4.9%	10,855	10,574	2.7%
London	8,939	8,504	5.1%	(3,165)	(2,992)	5.8%	5,774	5,512	4.8%
KWC-GTA	17,663	16,939	4.3%	(5,677)	(5,235)	8.4%	11,986	11,704	2.4%
	42,893	41,201	4.1%	(14,278)	(13,411)	6.5%	28,615	27,790	3.0%
New Brunswick									
Moncton	29,842	28,498	4.7%	(12,300)	(12,093)	1.7%	17,542	16,405	6.9%
Fredericton	21,674	20,505	5.7%	(8,243)	(8,087)	1.9%	13,431	12,418	8.2%
Saint John	14,057	13,274	5.9%	(6,250)	(6,102)	2.4%	7,807	7,172	8.9%
	65,573	62,277	5.3%	(26,793)	(26,282)	1.9%	38,780	35,995	7.7%
Newfoundland and Labrador									
St. John's	12,564	11,788	6.6%	(4,076)	(4,038)	0.9%	8,488	7,750	9.5%
	12,564	11,788	6.6%	(4,076)	(4,038)	0.9%	8,488	7,750	9.5%
Prince Edward Island									
Charlottetown	14,997	14,385	4.3%	(6,248)	(5,858)	6.7%	8,749	8,527	2.6%
	14,997	14,385	4.3%	(6,248)	(5,858)	6.7%	8,749	8,527	2.6%
Alberta									
Calgary	8,422	7,937	6.1%	(3,342)	(3,021)	10.6%	5,080	4,916	3.3%
Edmonton	9,821	9,564	2.7%	(3,606)	(3,398)	6.1%	6,215	6,166	0.8%
	18,243	17,501	4.2%	(6,948)	(6,419)	8.2%	11,295	11,082	1.9%
British Columbia									
Victoria	6,959	6,737	3.3%	(1,865)	(1,861)	0.2%	5,094	4,876	4.5%
	6,959	6,737	3.3%	(1,865)	(1,861)	0.2%	5,094	4,876	4.5%
	\$255,022	\$243,259	4.8%	(\$92,967)	(\$88,110)	5.5%	\$162,055	\$155,149	4.5%

2022 Management's Discussion and Analysis

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

MHC Results

For the years ended December 31,

	Total Portfolio			Same Property		
	2022	2021	% Change	2022	2021	% Change
Property revenue	\$19,790	\$18,578	6.5%	\$19,469	\$18,403	5.8%
Property operating expenses	7,170	6,824	5.1%	7,157	6,784	5.5%
NOI	\$12,620	\$11,754	7.4%	\$12,312	\$11,619	6.0%
Operating margin %	63.8%	63.3%	50 bps	63.2%	63.1%	10 bps

Killam's MHC business segment generated 6.1% of Killam's NOI for the year ended December 31, 2022. The MHC portfolio generates its highest revenues and NOI during the second and third quarters of each year due to the contribution from its nine seasonal resorts that earn approximately 60% of their annual NOI between July and October. Overall, the MHC portfolio generated same property NOI growth of 6.0% for the year ended December 31, 2022. This growth is mainly attributable to increased seasonal revenue, achieved through annual rent increases, plus higher transient revenue compared to 2021.

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2022	2021	% Change	2022	2021	% Change	2022	2021	% Change
Permanent MHCs	\$12,923	\$12,578	2.7%	(\$4,500)	(\$4,379)	2.8%	\$8,423	\$8,199	2.7%
Seasonal Resorts	6,546	5,825	12.4%	(2,657)	(2,405)	10.5%	3,889	3,420	13.7%
	\$19,469	\$18,403	5.8%	(\$7,157)	(\$6,784)	5.5%	\$12,312	\$11,619	6.0%

For the year ended December 31, 2022, same property permanent MHCs generated a 2.7% increase in NOI. Average rent increased 2.5%, to \$290 per site at December 31, 2022, compared to \$283 per site at December 31, 2021, and occupancy for the year increased modestly by 10 bps to 98.4%, compared to 98.3% in the same period in 2021. Revenue and NOI growth is further augmented through MHC site expansions at some of Killam's communities.

Killam's seasonal resort portfolio achieved strong same property revenue growth in 2022, resulting in a 12.4% increase in same property revenue for the year compared to the same period in 2021. Offsetting this was an increase in property operating expenses, up 10.5% in 2022 compared to the same period in 2021. Driving this was a 24.6% increase in utility and fuel expenses for the year ended December 31, 2022, caused by increased pricing coupled with higher consumption, as many of the communities reached full occupancy after being impacted by COVID restrictions in 2020 and 2021. Overall, same property seasonal MHCs had a 13.7% increase in NOI for the year ended December 31, 2022.

2022 Management's Discussion and Analysis

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

Commercial Results

For the years ended December 31,

	Total Portfolio			Same Property		
	2022	2021	% Change	2022	2021	% Change
Property revenue	\$19,267	\$17,384	10.8%	\$13,479	\$12,724	5.9%
Property operating expenses	8,400	7,959	5.5%	5,528	5,354	3.2%
NOI	\$10,867	\$9,425	15.3%	\$7,951	\$7,370	7.9%

Killam's commercial business segment contributed \$10.9 million, or 5.3%, of Killam's total NOI for the year ended December 31, 2022. Killam's commercial portfolio contains 946,372 SF, located in four of Killam's core markets. The commercial portfolio includes Westmount Place, a 300,000 SF retail and office complex located in Waterloo; Royalty Crossing, a 383,000 SF shopping mall in PEI for which Killam has a 75% interest and is the property manager; the Brewery Market, a 180,000 SF retail and office property in downtown Halifax; as well as other smaller properties located in Halifax and Moncton. Total commercial occupancy increased by 240 bps in 2022 to 93.0%, compared to 90.6% in 2021. Commercial same property results represent approximately 58.8% of Killam's commercial square footage. Same property results do not include properties that were recently acquired or those that are slated for redevelopment and are not operating as stabilized properties.

The increase in NOI during the year ended December 31, 2022, relates to the increase in occupancy coupled with increasing rental rates on renewals. In 2022, Killam successfully leased a net new 49,730 SF of commercial space across the portfolio. Killam has also renewed over 108,600 SF of commercial space during 2022, with a weighted average net rate increase of 11.4%.

2022 Management's Discussion and Analysis

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

PART V

Other Income and Expenses and Net Income

Net Income and Comprehensive Income

For the years ended December 31,

	2022	2021	% Change
Net operating income	\$206,912	\$183,235	12.9%
Other income	1,797	1,059	69.7%
Financing costs	(61,499)	(51,521)	19.4%
Depreciation	(573)	(573)	—%
Administration	(17,153)	(15,988)	7.3%
Fair value adjustment on unit-based compensation	2,234	(1,869)	(219.5)%
Fair value adjustment on Exchangeable Units	29,497	(26,107)	(213.0)%
Fair value adjustment on investment properties	(19,870)	239,684	(108.3)%
Income before income taxes	141,345	327,920	(56.9)%
Deferred tax expense	(18,813)	(42,393)	(55.6)%
Net income and comprehensive income	\$122,532	\$285,527	(57.1)%

Net income and comprehensive income decreased by \$163.0 million for the year ended December 31, 2022, as a result of an impairment of \$19.9 million in the fair value of Killam's investment properties, compared to \$239.7 million of fair value gains for the same period in 2021. This was offset with a \$23.7 million increase in net operating income driven by acquisitions, developments and same property NOI growth, along with fair value gains on the mark-to-market adjustments on Killam's unit-based compensation and Exchangeable Units of \$31.7 million in 2022, compared to a fair value loss of \$28.0 million for the year ended December 31, 2021.

Financing Costs

For the years ended December 31,

	2022	2021	% Change
Mortgage, loan and construction loan interest	\$54,077	\$46,683	15.8%
Interest on credit facilities	3,774	1,063	255.0%
Interest on Exchangeable Units	2,790	2,766	0.9%
Amortization of deferred financing costs	3,846	3,784	1.6%
Amortization of fair value adjustments on assumed debt	171	65	163.1%
Unrealized gain on derivative liability	(88)	(167)	(47.3)%
Interest on lease liabilities	391	386	1.3%
Capitalized interest	(3,462)	(3,059)	13.2%
	\$61,499	\$51,521	19.4%

Total financing costs increased \$10.0 million, or 19.4%, for the year ended December 31, 2022, compared to the same period in 2021. Mortgage, loan and construction loan interest expense increased \$7.4 million, or 15.8%, which coincides with an increase in Killam's mortgage, loan and construction loan debt of \$81.5 million over the past year, as Killam obtained financing for acquisitions and developments and up-financed maturing mortgages within its existing portfolio. The average interest rate on refinancings for the year ended December 31, 2022, was 3.70%, 90 bps higher than the weighted average interest rate on maturing debt.

Interest on Killam's credit facilities increased \$2.7 million for the year ended December 31, 2022, compared to the same period in 2021. This rise is due to a \$59.3 million increase in drawn credit facilities as at December 31, 2022, compared to December 31, 2021, which has been used for acquisition and development costs incurred during the year.

Deferred financing costs include mortgage assumption and application fees, and legal costs related to financings and refinancings. These costs are amortized over the term of the respective mortgage, and CMHC insurance fees are amortized over the amortization period of the mortgage. Deferred financing amortization costs increased 1.6% for the year ended December 31, 2022, following new debt placement on acquisitions and mortgage refinancings. This expense may fluctuate annually with refinancings.

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Capitalized interest increased \$0.4 million for the year ended December 31, 2022, compared to the same period in 2021. Capitalized interest will vary depending on the number of development projects underway and their stages in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

Administration Expenses

For the years ended December 31,

	2022	2021	% Change
Administration	\$17,153	\$15,988	7.3%
As a percentage of total revenues	5.2%	5.5%	(30) bps

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

For the year ended December 31, 2022, total administration expenses increased by 7.3% compared to the same period in 2021, due to higher travel expenses, increased wages, as well as higher information technology costs. Administration expenses as a percentage of total revenues were 5.2% for 2022, 30 bps lower than 2021.

Fair Value Adjustments

For the years ended December 31,

	2022	2021	% Change
Investment properties	(\$19,870)	\$239,684	(108.3)%
Deferred unit-based compensation	2,234	(1,869)	(219.5)%
Exchangeable Units	29,497	(26,107)	(213.0)%
	\$11,861	\$211,708	(94.4)%

Killam recognized fair value losses on impairment of \$19.9 million related to investment properties for the year ended December 31, 2022, compared to fair value gains of \$239.7 million for the year ended December 31, 2021. The fair value losses are a result of moderate capitalization rate expansion, however, the impact on value was partially offset by NOI growth driven by strong apartment fundamentals.

Restricted Trust Units (RTUs) governed by Killam's RTU Plan are awarded to certain members of Management as a portion of their compensation. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs. This aligns the interests of Management and the Trustees with those of unitholders. For the year ended December 31, 2022, there was an unrealized fair value gain of \$2.2 million, versus a \$1.9 million loss in the same period in 2021, due to changes in the market price of the underlying Killam Trust Units.

Distributions paid on Exchangeable Units are consistent with distributions paid to Killam's unitholders. The Exchangeable Units are redeemable on a one-for-one basis into Trust Units at the option of the holder. The fair value of the Exchangeable Units is based on the trading price of Killam's Trust Units. For the year ended December 31, 2022, there was an unrealized gain of \$29.5 million, compared to an unrealized loss of \$26.1 million in the same period in 2021. The unrealized gain in the year reflects a decrease in Killam's unit price as at December 31, 2022, compared to December 31, 2021.

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Deferred Tax Expense

For the years ended December 31,

	2022	2021	% Change
	\$18,813	\$42,393	(55.6)%

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

Killam's deferred tax expense decreased by \$23.6 million for the year ended December 31, 2022, compared to the same period in 2021, primarily due to fair value losses on investment properties recorded in 2022.

PART VI

Per Unit Calculations

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

For the years ended December 31,	Weighted Average Number of Units (000s)			Outstanding Number of Units (000s) as at December 31,
	2022	2021	% Change	2022
Trust Units	115,517	107,435	7.5%	116,801
Exchangeable Units	3,994	4,030	(0.9)%	3,898
Basic number of units	119,511	111,465	7.2%	120,699
Plus:				
Units under RTU Plan ⁽¹⁾	167	161	3.7%	—
Diluted number of units	119,678	111,626	7.2%	—

(1) Units are shown on an after-tax basis. RTUs are net of attributable personal taxes when converted to REIT units.

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Funds from Operations

FFO is recognized as an industry-wide standard measure of a real estate entity's operating performance, and Management considers FFO per unit to be a key measure of operating performance. REALPAC, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. Killam calculates FFO in accordance with the REALPAC definition. Notwithstanding the foregoing, FFO does not have a standardized meaning under IFRS and is considered a non-IFRS financial measure; therefore, it may not be comparable to similarly titled measures presented by other publicly traded companies. FFO for the years ended December 31, 2022 and 2021 is calculated as follows:

For the years ended December 31,

	2022	2021	% Change
Net income	\$122,532	\$285,527	(57.1)%
Fair value adjustment on unit-based compensation	(2,234)	1,869	(219.5)%
Fair value adjustment on Exchangeable Units	(29,497)	26,107	(213.0)%
Fair value adjustment on investment properties	19,870	(239,684)	108.3%
Non-controlling interest	(16)	(13)	23.1%
Internal commercial leasing costs	315	302	4.3%
Deferred tax expense	18,813	42,393	(55.6)%
Interest expense on Exchangeable Units	2,790	2,766	0.9%
Unrealized gain on derivative liability	(88)	(167)	47.3%
Depreciation on owner-occupied building	96	106	(9.4)%
Change in principal related to lease liabilities	22	29	(24.1)%
FFO	\$132,603	\$119,235	11.2%
FFO per unit – basic	\$1.11	\$1.07	3.7%
FFO per unit – diluted	\$1.11	\$1.07	3.7%
Weighted average number of units – basic (000s)	119,511	111,465	7.2%
Weighted average number of units – diluted (000s)	119,678	111,626	7.2%

Killam earned FFO of \$132.6 million, or \$1.11 per unit (diluted), for the year ended December 31, 2022, compared to \$119.2 million, or \$1.07 per unit (diluted), for the year ended December 31, 2021. FFO growth is primarily attributable to contributions from acquisitions and completed developments (\$9.1 million), same property NOI growth (\$7.7 million), and a moderate increase in capitalized interest (\$0.4 million). These increases were partially offset by a 7.2% increase in the weighted average number of units outstanding, as well as higher interest costs (\$2.6 million) and administration costs (\$1.2 million).

Adjusted Funds from Operations

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

Details of Killam's total actual capital expenditures by category are included in the Capital Improvements section on page 42, and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 34 of this MD&A.

Calculating Maintenance Capex Reserve for AFFO

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

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Maintenance Capex Reserve – Apartments

	2022	2021	2020
Total capital investments	\$91,388	\$70,711	\$57,961
Value-enhancing capital investment			
Building	(30,965)	(21,264)	(14,055)
Unit upgrades	(27,603)	(26,588)	(22,956)
Equipment & other	(12,873)	(6,226)	(7,704)
	(71,441)	(54,078)	(44,715)
Maintenance capex	\$19,947	\$16,633	\$13,246
Maintenance capex – % of total capital	22%	24%	23%
Number of units ⁽¹⁾	18,678	17,364	16,209
Maintenance capex per unit	\$1,068	\$958	\$817
Maintenance capex – three-year average		\$948	

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

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

Maintenance capex includes all building improvements and unit renovation investment required to maintain current revenues. For the year ended December 31, 2022, Killam updated its maintenance capex reserve to reflect the actual capital investment for the most recent three years (2020–2022), which is equivalent to \$948 per unit. Based on this calculation, Management has selected \$950 per unit for its maintenance capex reserve for 2022, an increase from the 2021 reserve of \$900 per unit. Management will maintain this reserve in its calculation of AFFO throughout 2023, until the three-year average is updated at year-end with actual results.

The allocations above were the result of a detailed review of Killam's historical capital investment. Significant judgment was required to allocate capital between value-enhancing and maintenance activities. Management believes these allocations are reflective of Killam's capital program. The maintenance capex as a percentage of total capital investment decreased in 2022 compared to 2021 and 2020, and this reflects Killam's increased investment in its unit repositioning program as well as its energy efficiency program, both of which are value enhancing. In 2022, approximately 22% of annual capital investment was attributable to maintaining and sustaining properties.

Maintenance Capex Reserve – MHCs and Commercial

The capital investment specific to the MHC portfolio was also reviewed for the three years ended December 31, 2022, and categorized into value-enhancing and maintenance capex. Value-enhancing capital investment includes site expansions, land improvements and NOI-enhancing water and sewer upgrades. Maintenance capex includes capital investment related to roads and paving, as well as the majority of water and sewer capital invested to maintain the infrastructure in each community. On a per site basis, maintenance capex has ranged from \$285 to \$330 over the past three years. Management selected \$300 per MHC site for its maintenance capex reserve for 2022, consistent with its 2021 reserve of \$300 per site.

Killam began taking a maintenance capex allowance for its commercial properties in 2018. The allowance was based on the expected average annual maintenance capital investment, which was estimated at \$0.70 per square foot, as Killam did not have historical information on which to base the allowance. Due to an increase in capital investment in its commercial properties, Killam increased its annual capex reserve to \$0.80 per square foot for 2020 and 2021. For 2022, Killam updated its maintenance capex reserve to reflect the actual capital investment for the most recent three years (2020–2022), which is equivalent to approximately \$0.96 per square foot. Based on this calculation, Management has selected \$0.95 per square foot for its commercial maintenance capex reserve for 2022, an increase from prior year that reflects Killam's greater maintenance capital investment on commercial properties.

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

For the years ended December 31,

	2022	2021	% Change
FFO	\$132,603	\$119,235	11.2%
Maintenance capital expenditures	(20,318)	(18,023)	12.7%
Commercial straight-line rent adjustment	(196)	(356)	(44.9)%
Internal and external commercial leasing costs	(532)	(418)	27.3%
AFFO	\$111,557	\$100,438	11.1%
AFFO per unit – basic	\$0.93	\$0.90	3.3%
AFFO per unit – diluted	\$0.93	\$0.90	3.3%
AFFO payout ratio – diluted ⁽¹⁾	75%	76%	(100) bps
Weighted average number of units – basic (000s)	119,511	111,465	7.2%
Weighted average number of units – diluted (000s)	119,678	111,626	7.2%

(1) Based on Killam's annual distribution of \$0.7000 for the year ended December 31, 2022, and \$0.6867 for the year ended December 31, 2021.

The payout ratio of 75% for the year ended December 31, 2022, improved 100 bps compared to the year ended December 31, 2021. The improvement is attributable to a 11.1% increase in AFFO, driven by contributions from acquisitions and developments and same property NOI growth, and offset by a 7.2% increase in the weighted average number of units outstanding.

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

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Adjusted Cash Flow from Operations

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

Killam calculates ACFO in accordance with the REALPAC definition but may differ from other REITs' methods and, accordingly, may not be comparable to ACFO reported by other issuers. ACFO is adjusted each quarter for fluctuations in non-cash working capital not indicative of sustainable cash flows, including prepaid property taxes, prepaid insurance and construction holdbacks related to developments. ACFO is also adjusted quarterly for capital expenditure accruals, which are not related to sustainable operating activities.

A reconciliation from cash provided by operating activities (refer to the consolidated statements of cash flows for the years ended December 31, 2022 and 2021) to ACFO is as follows:

For the years ended December 31,

	2022	2021	% Change
Cash provided by operating activities	\$125,331	\$140,542	(10.8)%
Adjustments:			
Changes in non-cash working capital not indicative of sustainable cash flows	8,372	(13,894)	(160.3)%
Maintenance capital expenditures	(20,318)	(18,023)	12.7%
External commercial leasing costs	(324)	(224)	44.6%
Amortization of deferred financing costs	(3,846)	(3,784)	1.6%
Interest expense related to lease liability	(22)	(29)	(24.1)%
Non-controlling interest	(16)	(13)	23.1%
ACFO	\$109,177	\$104,575	4.4%
Distributions declared ⁽¹⁾	84,722	77,925	8.7%
Excess of ACFO over cash distributions	\$24,455	\$26,650	(8.2)%
ACFO payout ratio – diluted ⁽²⁾	78%	75%	300 bps

(1) Includes distributions on Trust Units, Exchangeable Units and restricted Trust Units, as summarized on page 45.

(2) Based on Killam's annual distribution of \$0.69996 for the year ended December 31, 2022, and \$0.68668 for the year ended December 31, 2021.

Killam's ACFO payout ratio is 78% for the year ended December 31, 2022. Similar to the AFFO payout ratio, Killam's first quarter typically has the highest ACFO payout ratio due to the lower operating margin in the period attributable to higher heating costs in the winter months, and the fact the MHC portfolio typically generates its highest revenues and NOI during the second and third quarters of the year.

Cash Provided by Operating Activities and Distributions Declared

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

For the years ended December 31,

	2022	2021
Net income	\$122,532	\$285,527
Cash provided by operating activities	\$125,331	\$140,542
Total distributions declared	\$84,722	\$77,925
Excess of net income over total distributions declared	\$37,810	\$207,602
Excess of net income over net distributions paid ⁽¹⁾	\$63,101	\$233,506
Excess of cash provided by operating activities over total distributions declared	\$40,609	\$62,617

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

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PART VII

Liquidity and Capital Resources

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

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

- (i) Cash flows from operating activities are expected to be sufficient to fund the current level of distributions and maintenance capex.
- (ii) Killam currently has capacity of approximately \$80.0 million of capital under its credit facilities and cash on hand and acquisition capacity of over \$150.0 million.
- (iii) Mortgage refinancings and construction loans are expected to be sufficient to fund value-enhancing capex, principal repayments and developments. Killam has \$268.6 million of mortgage debt scheduled for refinancing in 2023, expected to lead to upfinancing opportunities of approximately \$90.0 million.
- (iv) Upcoming mortgage maturities are expected to be renewed through Killam's mortgage program.
- (v) Killam has unencumbered assets of approximately \$75.0 million, on which debt could be placed.

Killam is in compliance with all financial covenants contained in the DOT and through its credit facilities. Under the DOT, total indebtedness of Killam is limited to 70% of gross book value determined as the greater of (i) the value of Killam's assets as shown on the most recent consolidated statement of financial position, and (ii) the historical cost of Killam's assets. Total debt as a percentage of assets as at December 31, 2022, was 45.3%.

Killam has financial covenants on its credit facilities. The covenants require Killam to maintain a leverage limit of not more than 70% of debt to total assets, debt to service coverage of not less than 1.3 times and unitholders' equity of not less than \$900.0 million. As at February 16, 2023, Killam was in compliance with these covenants.

The table below outlines Killam's key debt metrics:

As at December 31,	2022	2021	Change
Weighted average years to debt maturity	3.8	4.0	(0.2) years
Total debt as a percentage of total assets	45.3%	45.0%	30 bps
Interest coverage	3.31x	3.53x	(6.2)%
Debt service coverage	1.51x	1.53x	(1.3)%
Debt to normalized EBITDA ⁽¹⁾	11.21x	11.33x	(1.1)%
Weighted average mortgage interest rate	2.74%	2.58%	16 bps
Weighted average interest rate of total debt	3.01%	2.52%	49 bps

(1) Ratio calculated net of cash.

Killam's primary measure of capital management is the total debt as a percentage of total assets ratio. The calculation of the total debt as a percentage of total assets is summarized as follows:

As at	December 31, 2022	December 31, 2021
Mortgages and loans payable	\$1,979,442	\$1,915,334
Credit facilities	121,014	61,730
Construction loans	94,972	77,596
Total debt	\$2,195,428	\$2,054,660
Total assets ⁽¹⁾	\$4,849,903	\$4,568,903
Total debt as a percentage of total assets	45.3%	45.0%

(1) Excludes right-of-use asset of \$9.6 million as at December 31, 2022 (December 31, 2021 - \$9.6 million).

Total debt as a percentage of total assets was 45.3% at December 31, 2022, compared to 45.0% at December 31, 2021. The 30 bps increase is attributable to an increased total debt balance as at December 31, 2022, compared to December 31, 2021. Increased total debt is due to mortgages being placed on recently acquired assets, along with an increased balance on Killam's drawn credit facilities as at December 31, 2022. This is partially offset by an increase in total assets, due to recently completed acquisitions and developments. Management is focused on maintaining conservative debt levels. Total debt to total assets is sensitive to changes in the fair value of investment properties, in particular cap-rate changes.

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The quantitative sensitivity analysis shown below illustrates the value increase or decrease in Killam's debt to asset ratio given the change in the noted input (cap-rate sensitivity). This analysis excludes the impact of any change in NOI growth.

Cap-rate Sensitivity Increase (Decrease)	Fair Value of Investment Properties ⁽¹⁾	Total Assets	Total Debt as % of Total Assets	Change (bps)
(0.50)%	\$5,393,122	\$5,430,224	40.4%	(480)
(0.25)%	\$5,091,436	\$5,128,538	42.8%	(250)
—%	\$4,812,801	\$4,849,903	45.3%	—
0.25%	\$4,582,293	\$4,619,395	47.5%	230
0.50%	\$4,365,481	\$4,402,583	49.9%	460

(1) The cap-rate sensitivity calculates the impact on Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method, and Killam's commercial portfolio, which is valued using the discounted cash flow method.

Normalized Adjusted EBITDA

The following table reconciles Killam's net income to normalized adjusted EBITDA for the years ended December 31, 2022 and 2021:

Twelve months ending,	December 31, 2022	December 31, 2021	% Change
Net income	122,532	285,527	(57.1)%
Deferred tax expense	18,813	42,393	(55.6)%
Financing costs	61,499	51,521	19.4%
Depreciation	573	573	—%
Fair value adjustment on unit-based compensation	(2,234)	1,869	(219.5)%
Fair value adjustment on Exchangeable Units	(29,497)	26,107	(213.0)%
Fair value adjustment on investment properties	19,870	(239,684)	(108.3)%
Adjusted EBITDA	191,556	168,306	13.8%
Normalizing adjustment ⁽¹⁾	3,437	12,999	(73.6)%
Normalized adjusted EBITDA	194,993	181,305	7.5%
Net debt	\$2,186,275	\$2,054,225	6.4%
Debt to normalized adjusted EBITDA	11.21x	11.33x	(1.1)%

(1) Killam's normalizing adjustment includes NOI adjustments for recently completed acquisitions and developments, to account for the difference between NOI booked in the period and stabilized NOI over the next 12 months.

Interest and Debt Service Coverage

Twelve months ending,	December 31, 2022	December 31, 2021	% Change
NOI	206,912	183,235	12.9%
Other income	1,797	1,059	69.7%
Administration	(17,153)	(15,988)	7.3%
Adjusted EBITDA	191,556	168,306	13.8%
Interest expense ⁽¹⁾	57,851	47,746	21.2%
Interest coverage ratio	3.31x	3.53x	(6.2)%
Principal repayments	69,033	62,246	10.9%
Interest expense ⁽¹⁾	57,851	47,746	21.2%
Debt service coverage ratio	1.51x	1.53x	(1.3)%

(1) Interest expense includes mortgage, loan and construction loan interest and interest on credit facilities, as presented in Note 22 to the consolidated financial statements.

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Mortgages and Other Loans

Killam's long-term debt consists largely of fixed-rate, long-term mortgages. Mortgages are secured by a first or second charge against individual properties. Killam's weighted average interest rate on mortgages as at December 31, 2022, was 2.74%, 16 bps higher compared to the rate as at December 31, 2021.

Refinancings

For the year ended December 31, 2022, Killam refinanced the following mortgages:

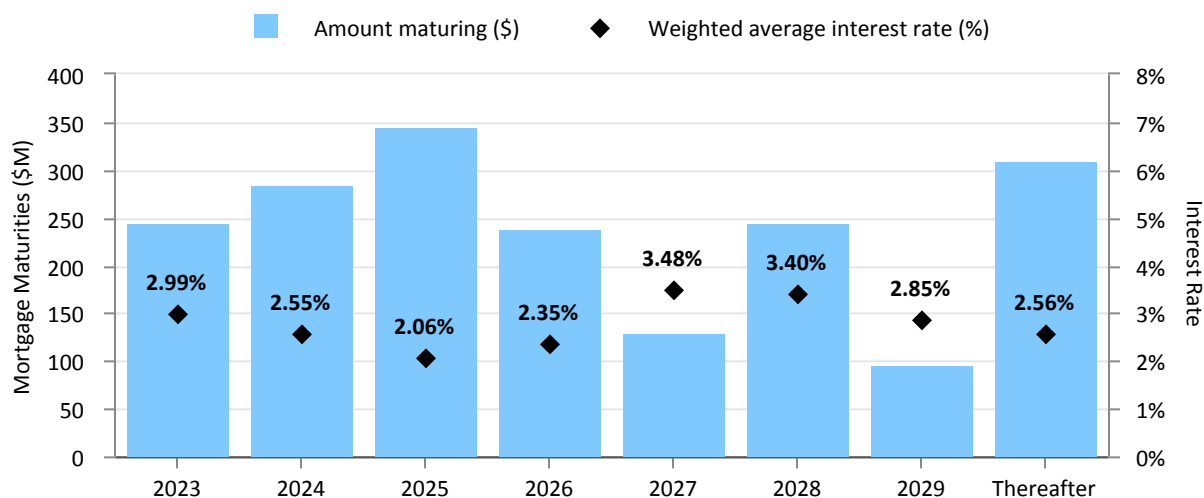
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	\$130,321	2.69%	\$182,597	3.47%	8.2 years	\$52,276
MHCs and Commercial	21,251	3.51%	30,429	5.12%	5.0 years	9,178
	\$151,572	2.80%	\$213,026	3.70%	7.8 years	\$61,454

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

Year of Maturity	Apartments			MHCs and Commercial		Total	
	Balance December 31	Weighted Avg Int. Rate %	% CMHC Insured	Balance December 31	Weighted Avg Int. Rate %	Balance December 31 ⁽¹⁾	Weighted Avg Int. Rate %
2023	\$244,568	2.99%	52.1%	\$31,966	3.62%	\$276,534	3.07%
2024	285,172	2.55%	73.0%	23,568	2.75%	308,740	2.56%
2025	345,393	2.06%	52.6%	20,804	2.61%	366,197	2.09%
2026	239,278	2.35%	82.4%	7,611	2.69%	246,889	2.36%
2027	130,452	3.48%	74.6%	33,080	5.12%	163,532	3.81%
Thereafter	651,289	2.92%	100.0%	3,993	3.31%	655,282	2.92%
	\$1,896,152	2.68%	77.2%	\$121,022	3.62%	\$2,017,174	2.74%

(1) Excludes \$2.6 million in variable rate demand loans secured by land for future development, which are classified as mortgages and loans payable as at December 31, 2022.

Apartment Mortgage Maturities by Year



Access to mortgage debt is essential in refinancing maturing debt and financing acquisitions. Management has diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered maturity dates to manage interest rate risk. Management anticipates continued access to mortgage debt for both acquisitions and refinancings. Access to CMHC-insured financing gives apartment owners an advantage over other asset classes, as lenders are provided a government guarantee and, therefore, are able to lend at more favourable rates. As at December 31, 2022, approximately 77.2% of Killam's apartment mortgages were CMHC-insured (72.5% of total mortgages, as MHC and commercial mortgages are not eligible for CMHC insurance) (December 31, 2021 - 75.0% and 70.5%). The weighted average interest rate on the CMHC-insured mortgages was 2.71% as at December 31, 2022 (December 31, 2021 - 2.54%).

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

The following tables present the NOI for properties that are available to Killam to refinance at debt maturity in 2023 and 2024:

	Number of Properties	Estimated NOI	Principal Balance (at maturity)
2023 Debt Maturities			
Apartments with debt maturing	36	\$25,779	\$239,349
MHCs and Commercial with debt maturing	11	4,118	29,249
	47	\$29,897	\$268,598
2024 Debt Maturities			
Apartments with debt maturing	48	\$30,635	\$267,020
MHCs and Commercial with debt maturing	5	3,862	22,150
	53	\$34,497	\$289,170

Future Contractual Debt Obligations

As at December 31, 2022, the timing of Killam's future contractual debt obligations is as follows:

Twelve months ending December 31,	Mortgage and Loans Payable	Construction Loans ⁽¹⁾	Credit Facilities	Total
2023	\$340,107	\$94,972	\$9,014	\$444,093
2024	345,433	—	112,000	457,433
2025	372,184	—	—	372,184
2026	239,442	—	—	239,442
2027	166,902	—	—	166,902
Thereafter	555,706	—	—	555,706
	\$2,019,774	\$94,972	\$121,014	\$2,235,760

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

Construction Loans

As at December 31, 2022, Killam had access to six variable rate non-revolving demand construction loans for the purpose of financing development projects, totalling \$152.8 million. As at December 31, 2022, \$95.0 million was drawn on the construction loans (December 31, 2021 - \$77.6 million). Payments are made monthly on an interest-only basis. The weighted-average contractual interest rate on amounts outstanding at December 31, 2022, was 5.19% (December 31, 2021 - 2.01%). Once construction is complete and rental targets achieved, construction financing is expected to be replaced with permanent mortgage financing. Killam expects to place permanent financing on two construction loans (with a total balance of \$57.9 million at December 31, 2022) during Q1-2023.

Credit Facilities

Killam has access to two credit facilities with credit limits of \$155.0 million (\$175.0 million with the accordion feature) and \$15.0 million (December 31, 2021 - \$155.0 million and \$15.0 million) that can be used for acquisition and general business purposes.

The \$155.0 million facility bears interest at prime plus 55 bps on prime rate advances or 155 bps over bankers' acceptances (BAs). The facility includes a \$30.0 million demand revolver and a \$125.0 million committed revolver, as well as an accordion option to increase the \$155.0 million facility by an additional \$20.0 million. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2022. The facility matures December 16, 2024 and includes a one-year extension option.

The \$15.0 million demand facility bears interest at prime plus 125 bps on advances and 155 bps on issuance of letters of credit, in addition to 50 bps per annum. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2022. Subsequent to year-end the demand facility was increased to \$25.0 million.

As at December 31, 2022	Maximum Loan Amount ⁽¹⁾	Amount Drawn	Letters of Credit	Amount Available
\$155.0 million facility	\$175,000	\$112,000	\$—	\$63,000
\$15.0 million facility	15,000	9,014	2,320	3,666
Total	\$190,000	\$121,014	\$2,320	\$66,666

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As at December 31, 2021	Maximum Loan Amount ⁽¹⁾	Amount Drawn	Letters of Credit	Amount Available
\$155.0 million facility	\$175,000	\$54,500	\$—	\$120,500
\$15.0 million facility	15,000	7,230	1,745	6,025
Total	\$190,000	\$61,730	\$1,745	\$126,525

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

Investment Properties

As at December 31,

	2022	2021	% Change
Investment properties	\$4,637,792	\$4,284,030	8.3%
Investment properties under construction (IPUC)	135,196	201,319	(32.8)%
Land for development	39,813	55,528	(28.3)%
	\$4,812,801	\$4,540,877	6.0%

Continuity of Investment Properties

As at December 31,

	2022	2021	% Change
Balance, beginning of year	\$4,284,030	\$3,570,198	20.0%
Acquisition of properties	116,377	393,028	(70.4)%
Transfer from IPUC	170,337	17,254	887.2%
Transfer from land for development	1,394	—	N/A
Capital expenditures and development costs ⁽¹⁾	104,726	76,940	36.1%
Fair value adjustment - Apartments	(20,050)	210,829	(109.5)%
Fair value adjustment - MHCs	(16,570)	12,844	(229.0)%
Fair value adjustment - Commercial	(2,452)	2,937	(183.5)%
Balance, end of year	\$4,637,792	\$4,284,030	8.3%

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

Killam reviewed its valuation of investment properties in light of higher inflation and increased borrowing costs as at December 31, 2022, assessing the impact on cap-rates, rental rate growth and occupancy assumptions. It is not possible to forecast with certainty the duration and full scope of the economic impact of higher inflation and interest rates and other consequential changes on Killam's business and operations, both in the short term and in the long term. The fair value losses recognized during the quarter were driven by an expansion in cap-rates, partially offset by robust NOI growth driven by strong apartment fundamentals.

The key valuation assumption in the determination of fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at December 31, 2022 and December 31, 2021, is as follows:

For the years ended December 31,

Capitalization Rates	2022			2021		
	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	3.25%	7.00%	4.48%	3.00%	7.00%	4.41%
MHCs	5.25%	6.50%	5.78%	5.00%	6.50%	5.59%

Killam's effective weighted average cap-rates for its apartment and MHC portfolios at December 31, 2022, were 4.48% and 5.78%, an increase of 7 bps for apartments and 19 bps for MHCs compared to December 31, 2021. The increase in average cap-rates for apartments and MHCs are due to marginal expansion of cap-rates during the year. Killam will continue to monitor the acquisition market to identify cap-rate changes. The change in the weighted average cap-rates compared to December 31, 2021, is also impacted by acquisitions and developments.

2022 Management's Discussion and Analysis

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

Fair Value Sensitivity

The following table summarizes the impact of changes in cap-rates and stabilized NOI on the fair value of Killam's investment properties:

	Change in Stabilized NOI ⁽¹⁾					
	(2.00)%	(1.00)%	— %	1.00%	2.00%	
Change in Capitalization Rate	(0.50)%	\$465,868	\$518,050	\$570,231	\$622,412	\$674,593
	(0.25)%	170,216	219,380	268,545	317,709	366,873
	—%	(92,958)	(46,479)	—	46,479	92,958
	0.25%	(328,744)	(284,671)	(240,598)	(196,525)	(152,453)
	0.50%	(541,220)	(499,315)	(457,410)	(415,505)	(373,601)

(1) Includes Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method, and commercial assets valued using a discounted cash flow approach.

2022 Acquisitions – Investment Properties

Property	Location	Acquisition Date	Ownership Interest	Property Type	Units/SF	Purchase Price ⁽¹⁾
1477 & 1479 Carlton Street	Halifax, NS	16-Feb-22	100%	Apartment	4	\$3,500
510-516 Quiet Place	Waterloo, ON	7-Mar-22	100%	Apartment	24	7,900
150 Wissler Road ⁽²⁾	Waterloo, ON	17-Mar-22	100%	Commercial/Development Land	—	3,850
Craigflower House	Victoria, BC	31-Mar-22	100%	Apartment	49	14,000
1358 & 1360 Hollis Street	Halifax, NS	03-Apr-22	100%	Apartment	27	6,200
665 & 671 Woolwich Street ⁽³⁾	Guelph, ON	29-Apr-22	100%	Apartment/Development Land	84	25,000
621 Crown Isle Blvd	Courtenay, BC	18-May-22	100%	Apartment	56	21,900
1876 & 1849 Riverside Lane	Courtenay, BC	18-May-22	100%	Apartment	94	33,700
Highland Village	Amherst, NS	04-Jul-22	100%	Permanent MHC	99	2,500
Total Acquisitions						\$118,550

(1) Purchase price does not include transaction costs.

(2) Property has in-place income acquired for future development potential located adjacent to Killam's Northfield Gardens complex in Waterloo.

(3) Property includes an existing 84-unit apartment building and an adjacent parcel of land for future development potential.

Investment Properties Under Construction

As at December 31,

	2022	2021	% Change
Balance, beginning of year	\$201,319	\$128,100	57.2%
Fair value adjustment	19,801	11,097	78.4%
Capital expenditures	63,217	73,005	(13.4)%
Interest capitalized	2,559	2,239	14.3%
Transfer to inventory	(3,073)	—	N/A
Transfer to investment properties	(170,337)	(17,254)	887.2%
Transfer from land for development	21,710	4,132	425.4%
Balance, end of year	\$135,196	\$201,319	(32.8)%

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Land for Development

As at December 31,

	2022	2021	% Change
Balance, beginning of year	\$55,528	\$43,620	27.3%
Capital expenditures	2,536	1,905	33.1%
Interest capitalized	853	820	4.0%
Acquisitions	4,000	13,315	(70.0)%
Transfer to investment properties	(1,394)	—	N/A
Transfer to IPUC	(21,710)	(4,132)	425.4%
Balance, end of year	\$39,813	\$55,528	(28.3)%

Killam's development projects currently underway as at December 31, 2022, include the following three projects:

Property	Location	Ownership	Number of Units ⁽¹⁾	Project Budget (millions)	Start Date	Estimated Completion	Anticipated All-Cash Yield
Governor	Halifax, NS	100%	12	\$24.3	2021	Q2-2023	4.00%–4.25%
Civic 66	Kitchener, ON	100%	169	\$69.7	2020	Q1/Q2-2023	4.75%–5.00%
The Carrick	Waterloo, ON	100%	139	\$83.5	Q2-2022	2024	4.00%–4.25%
Total⁽²⁾⁽³⁾			320	\$177.5			

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

(2) In addition, Killam has a 10% interest in the second phase (234 units) of the Nolan Hill development in Calgary, AB, which broke ground during the fourth quarter of 2021 and is expected to be completed in 2024. Killam has a \$65.0 million commitment in place to purchase the remaining 90% interest of the second phase, following completion of construction and the achievement of certain conditions.

(3) In addition, Killam has a 50% interest in the construction of 18 townhouses for future sale on a portion of the Sherwood Crossing land in Charlottetown, which are expected to be completed in early 2023. The investment in the townhouses is recorded in residential inventory.

Governor

The Governor, containing 12 luxury apartment units and 3,500 SF of ground floor commercial space, broke ground in early 2021. The building is located adjacent to Killam's 240-unit building, The Alexander, and The Brewery Market in Halifax, NS. The budget for the development is \$24.3 million. Construction financing is in place and the project is expected to be completed in Q2-2023.

Civic 66

Civic 66, containing 169 apartment units and 3,000 SF of ground floor commercial space, broke ground in July 2020, and it is expected to be completed on a phased basis by floor through Q1 and Q2-2023. The budget for the development is \$69.7 million. Construction financing was placed during Q2-2021, and all remaining development costs will be funded through this financing. To date, fair value gains of \$6.7 million have been recorded related to this property.

The Carrick

The Carrick, the first phase of a multi-phase project located next to Killam's Westmount Place property in Waterloo, ON, broke ground in Q2-2022. This 139-unit project is expected to be completed in 2024 and has a development budget of \$83.5 million.

2022 Management's Discussion and Analysis

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

Future Development Pipeline

Killam has a development pipeline, with almost 70% of the future projects located outside of Atlantic Canada. Killam targets yields 50–150 bps higher than the expected market cap-rate on completion. Below is a listing of land currently available for future development:

Property	Location	Killam's Interest	Development Potential (# of Units) ⁽¹⁾	Status	Estimated Year of Completion
<u>Developments expected to start in 2023</u>					
Eventide & Aurora	Halifax, NS	100%	120	Final planning approval expected in Q1-2023	2025
<u>Developments expected to start in 2024–2026</u>					
Westmount Place Phase 2	Waterloo, ON	100%	150	In design	2026
Northfield Gardens Expansion	Waterloo, ON	100%	150	Concept design	2026
Medical Arts	Halifax, NS	100%	200	Concept design	2027
Hollis Street	Halifax, NS	100%	100	Concept design	2027
Gloucester City Centre Phase 3	Ottawa, ON	50%	200	Concept design	2027
Nolan Hill Phase 3 ⁽²⁾	Calgary, AB	10%	200	In design	2027
<u>Additional future development projects</u>					
Nolan Hill Phase 4 ⁽²⁾	Calgary, AB	10%	200	Future development	TBD
671 Woolwich St.	Guelph, ON	100%	150	Future development	TBD
Christie Point	Victoria, BC	100%	312	Development agreement in place	TBD
Quiet Place	Waterloo, ON	100%	300	Future development	TBD
Gloucester City Centre (Phase 4–5)	Ottawa, ON	50%	400	Future development	TBD
Westmount Place (Phase 3–5)	Waterloo, ON	100%	800	Future development	TBD
Kanata Lakes	Ottawa, ON	50%	80	Future development	TBD
St. George Street	Moncton, NB	100%	60	Future development	TBD
Stratford Land	Charlottetown, PE	100%	100	Future development	TBD
Sherwood Crossing	Charlottetown, PE	100%	325	Future development	TBD
15 Haviland	Charlottetown, PE	100%	60–90	Future development	TBD
Topsail Road	St. John's, NL	100%	225	Future development	TBD
Block 4	St. John's, NL	100%	80	Future development	TBD
Total Development Opportunities			4,227		

(1) Represents total number of units in the potential development.

(2) Killam has a 10% interest in the remaining two phases of the Nolan Hill development in Calgary, AB, with the potential to purchase the remaining 90% interest upon completion of each phase.

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

Capital Improvements

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

During the year ended December 31, 2022, Killam invested \$104.7 million of capital in its existing portfolio, compared to \$78.9 million for the same period in 2021, an increase of 32.8% year-over-year. This increase reflects Killam's growing asset base, as well as the timing of larger multi-phase capital projects, increased investment in energy initiatives and Killam's expanded repositioning program.

For the year ended December 31,

	2022	2021	% Change
Apartments	\$91,388	\$70,711	29.2%
MHCs	6,242	5,423	15.1%
Commercial	7,096	2,744	158.6%
	\$104,726	\$78,878	32.8%

Apartment Portfolio

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

For the year ended December 31,

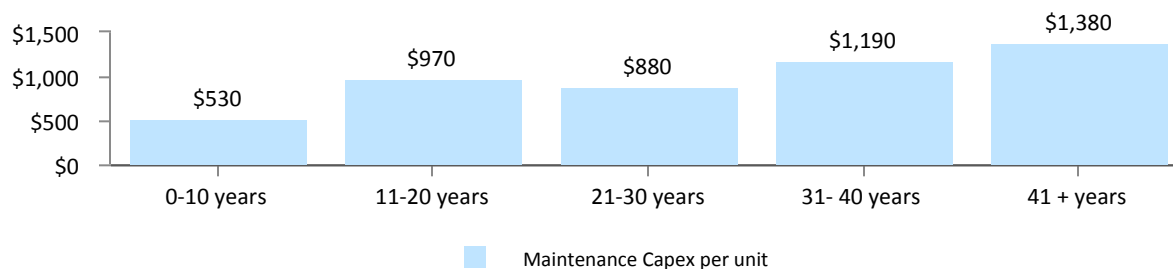
	2022	2021	% Change
Building improvements	\$44,249	\$27,899	58.6%
Unit renovations	29,635	27,784	6.7%
Appliances	5,481	4,482	22.3%
Energy	8,513	8,165	4.3%
Common area	3,510	2,381	47.4%
Total capital invested	\$91,388	\$70,711	29.2%
Average number of units outstanding ⁽¹⁾	18,678	17,364	7.6%
Capital invested – \$ per unit	\$4,893	\$4,072	20.2%

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

Killam invested \$4,893 per unit for the year ended December 31, 2022, compared to \$4,072 per unit for the same period in 2021. The increase relates to larger multi-phase capital projects focused on increasing the resiliency of Killam's buildings, along with the continued expansion of Killam's unit repositioning program. Killam's focus on development and acquisition of newer properties translates into a lower maintenance capex per unit than many other apartment owners in Canada. Thirty-five percent of Killam's apartments, as a percentage of 2022 forecasted NOI, were built in the past 10 years, and the average age of Killam's portfolio is 27 years. This portfolio of newer assets allows Killam to focus on value-enhancing opportunities, as the maintenance capital requirements are lower.

Maintenance capital requirements vary significantly by age of property. As the following chart illustrates, the approximate 2022 maintenance capex for properties built in the past 10 years was \$530 per unit vs. \$1,380 per unit for units that were 41+ years old.

**Average Maintenance Capital Investment per Unit by Building Age
(Based on 2022 Actual Investment)**

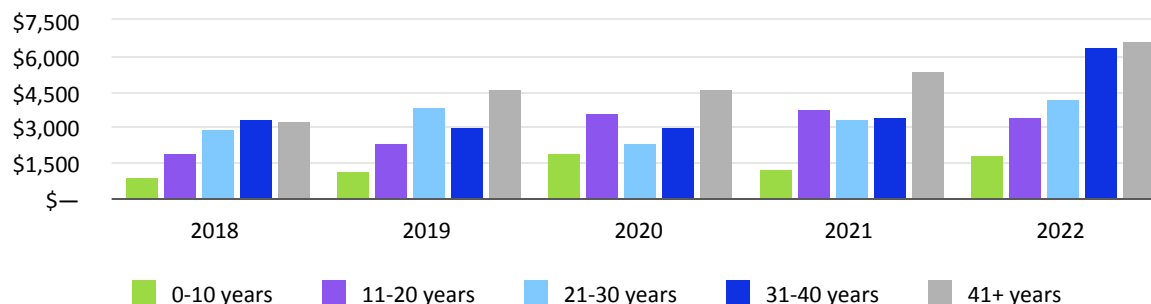


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As well, the chart below highlights that the total capital investment per unit is less for newer properties (built in the last 10 years), averaging \$1,870 per unit, compared to \$6,690 per unit for buildings over 40 years old.

Average Capital Spend per Unit by Building Age



Building Improvements

Of the \$91.4 million total capital invested in the apartment segment for the year ended December 31, 2022, approximately 48% was invested in building improvements, up from 39% of the total capital investment for the year ended December 31, 2021. These investments include larger building improvement projects such as exterior cladding and brick work, balcony refurbishments, and roof upgrades, as well as projects such as plumbing improvements, fire safety, security systems and window upgrades. The increase in building investments for the year ended December 31, 2022, compared to the same period in 2021, relates primarily to the timing of multi-phase building envelope projects and the increased size of Killam's apartment portfolio.

Unit Renovations and Repositionings

For the year ended December 31, 2022, Killam invested \$29.6 million in unit renovations, a 6.7% increase over the total investment of \$27.8 million for the same period in 2021. This increase reflects Killam's continued focus on renovations in order to maximize occupancy and rental growth. Killam targets a minimum ROI of 10% for its unit renovations, earning rental growth of 10%–40%. The timing of unit renovation investment is influenced by tenant turnover, market conditions and individual property requirements. The length of time that Killam has owned a property and the age of the property also impact capital requirements. In 2022, Killam repositioned 617 units, up 12% from 551 units in 2021, with an average investment of approximately \$31,100 per unit, generating an average ROI of 13%. A summary of the repositioning activities for the year ended December 31, 2022 is set out below:

Region	2022 Repositioning Program		
	Units Repositioned	Average Investment per Unit	Avg Return on Investment
Nova Scotia	306	\$25,960	14%
New Brunswick	219	\$34,780	11%
Ontario	72	\$40,700	19%
Newfoundland and Labrador	5	\$39,290	11%
Alberta	8	\$33,640	9%
British Columbia	7	\$32,580	28%
Total (weighted average)	617	\$31,100	13%

Killam achieved its target of completing a minimum of 600 repositionings in 2022, and estimates that the repositioning opportunity within its portfolio is approximately an additional 5,500 units. This should generate an estimated \$23.1 million in annualized revenue, representing an approximate \$342.3 million increase in net asset value.

Energy

Killam continues to invest in energy-efficiency initiatives, augmenting its sustainability programs and reducing operating expenses. Killam is committed to continuously lowering and reporting on its greenhouse gas emissions and also completing benchmarking using third-party validation. In 2022, Killam invested \$8.5 million in energy-related capital projects, an increase of 4.3% compared to the same period in 2021. These projects included installation of geothermal heating and cooling systems at two new development projects, installation of photovoltaic solar panels at select properties, installation of EV chargers, boiler, heat pump and window replacements, insulation upgrades, as well as electricity and water conservation projects.

2022 Management's Discussion and Analysis

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MHC Portfolio

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

For the year ended December 31,

	2022	2021	% Change
Water and sewer upgrades	\$2,057	\$1,749	17.6%
Site expansion and land improvements	1,106	843	31.2%
Other	1,806	1,871	(3.5)%
Roads and paving	1,149	558	105.9%
Equipment	124	402	(69.2)%
Total capital invested – MHCs	\$6,242	\$5,423	15.1%
Average number of sites	5,924	5,875	0.8%
Capital invested – \$ per site	\$1,054	\$923	14.2%

Management expects to invest between \$750 and \$1,000 per MHC site annually. Consistent with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is considered value enhancing. Maintenance capital includes costs to support the existing infrastructure, and value-enhancing capital includes improvements to roadways, work to accommodate future expansion, and various community enhancements. A portion of MHC capital may be recovered through above-guideline increases in provinces with rent control, leading to increased NOI from the investments.

Total capital invested during the year ended December 31, 2022, was \$6.2 million, compared to \$5.4 million for the year ended December 31, 2021. The increase in capital investment relates to various community enhancements, paving and land improvements, as well as water and sewer upgrades which typically result in a reduction in water consumption. As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community.

Commercial Portfolio

During the year ended December 31, 2022, Killam invested \$7.1 million in its commercial portfolio, compared to \$2.7 million for the year ended December 31, 2021. These investments relate primarily to property upgrades and tenant improvements for new leasing opportunities at Killam's three stand-alone commercial properties: The Brewery, Westmount Place and Royalty Crossing. The timing of capital investment will vary based on tenant turnover.

2022 Management's Discussion and Analysis

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Unitholders' Equity

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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the Trust Unit (market price is defined as the weighted average trading price of the previous 10 trading days), and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of \$50 thousand for all redemptions in a calendar month, or a note payable. For the year ended December 31, 2022, no unitholders redeemed units.

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

The following chart highlights Killam's distributions paid and Trust Units reinvested.

Distribution Reinvestment Plan and Net Distributions Paid

For the years ended December 31,

	2022	2021	% Change
Distributions declared on Trust Units	\$81,673	\$74,912	9.0%
Distributions declared on Exchangeable Units	2,790	2,766	0.9%
Distributions declared on awards outstanding under RTU Plan	259	247	4.9%
Total distributions declared	\$84,722	\$77,925	8.7%
Less:			
Distributions on Trust Units reinvested	(25,032)	(25,657)	(2.4)%
Distributions on RTUs reinvested	(259)	(247)	4.9%
Net distributions paid	\$59,431	\$52,021	14.2%
Percentage of distributions reinvested	29.9%	33.2%	

Normal Course Issuer Bid

In May 2022, Killam announced that the TSX had accepted Killam's notice of intention to make a normal course issuer bid for its Trust Units. Under the normal course issuer bid, Killam may acquire up to 3,000,000 Trust Units commencing on June 2, 2022, and ending on June 1, 2023. All purchases of Trust Units are made through the facilities of the TSX at the market price of the Trust Units at the time of acquisition. Daily repurchases by Killam are limited to 53,703 Trust Units, other than block purchase exemptions. Any Trust Units acquired will be cancelled.

2022 Management's Discussion and Analysis

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

PART VIII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property revenue	\$84,534	\$85,301	\$81,548	\$77,464	\$76,998	\$76,244	\$70,300	\$67,375
NOI	\$53,169	\$56,792	\$51,685	\$45,263	\$47,921	\$50,455	\$44,596	\$40,263
Net income (loss)	(\$9,810)	\$3,600	\$68,716	\$60,027	\$74,801	\$46,634	\$136,672	\$27,420
FFO	\$32,719	\$37,144	\$34,078	\$28,665	\$30,514	\$34,246	\$29,369	\$25,106
FFO per unit - diluted	\$0.27	\$0.31	\$0.28	\$0.24	\$0.27	\$0.30	\$0.27	\$0.23
AFFO	\$27,417	\$32,188	\$29,002	\$23,739	\$25,669	\$29,510	\$24,774	\$20,485
AFFO per unit – diluted	\$0.23	\$0.27	\$0.24	\$0.20	\$0.22	\$0.26	\$0.23	\$0.19
Weighted average units – diluted (000s)	120,676	120,292	119,938	117,765	114,571	114,250	109,929	107,669

For the three months ended December 31, 2022, Killam generated a net loss of \$9.8 million as a result of fair value losses in the quarter related to cap-rate expansion, compared to fair value gains in Q4-2021.

Q4 Consolidated Results

For the three months ended December 31,

	Total Portfolio			Same Property ⁽¹⁾		
	2022	2021	% Change	2022	2021	% Change
Property revenue	\$84,534	\$76,998	9.8%	\$72,775	\$69,718	4.4%
Property operating expenses						
General operating expenses	14,629	13,616	7.4%	12,585	11,991	5.0%
Utility and fuel expenses	7,111	6,332	12.3%	6,077	5,499	10.5%
Property taxes	9,625	9,129	5.4%	8,327	8,246	1.0%
Total operating expenses	\$31,365	\$29,077	7.9%	\$26,989	\$25,736	4.9%
NOI	\$53,169	\$47,921	11.0%	\$45,786	\$43,982	4.1%
Operating margin %	62.9%	62.2%	70 bps	62.9%	63.1%	(20) bps

(1) Same property results exclude acquisitions and developments completed during the comparable 2022 and 2021 periods, which are classified as non-same property. For the three months ended December 31, 2022, NOI contributions from acquisitions and developments completed in 2022 and 2021 were \$9.0 million. For the three months ended December 31, 2021, NOI contributions from acquisitions and developments completed in 2021 were \$5.2 million.

For the three months ended December 31, 2022, Killam's consolidated NOI grew by 11.0%. Revenues were up 9.8%, offset by total operating expense increases of 7.9%. These increases relate to growth of Killam's existing portfolio, coupled with expansion through acquisitions and developments completed over the last 12 months.

Consolidated same property revenue grew 4.4% for the three months ended December 31, 2022, compared to the same period in 2021, due to higher rental rates and apartment occupancy. Total same property operating expenses increased by 4.9%, resulting in consolidated same property NOI growth of 4.1% in Q4-2022, compared to Q4-2021.

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Q4 Same Property NOI

For the three months ended December 31,

	Apartments			MHCs			Commercial		
	2022	2021	% Change	2022	2021	% Change	2022	2021	% Change
Property revenue	\$65,132	\$62,247	4.6%	\$4,291	\$4,154	3.3%	\$3,352	\$3,317	1.1%
Property operating expenses									
General operating expenses	10,777	10,271	4.9%	1,194	1,179	1.3%	614	541	13.5%
Utility and fuel expenses	5,541	4,972	11.4%	386	379	1.8%	150	148	1.4%
Property taxes	7,452	7,403	0.7%	195	190	2.6%	680	653	4.1%
Total property expenses	\$23,770	\$22,646	5.0%	\$1,775	\$1,748	1.5%	\$1,444	\$1,342	7.6%
NOI	\$41,362	\$39,601	4.4%	\$2,516	\$2,406	4.6%	\$1,908	\$1,975	(3.4)%
Operating margin	63.5%	63.6%	(10) bps	58.6%	57.9%	70 bps	56.9%	59.5%	(260) bps

Apartment Same Property

Killam's same property apartment portfolio realized NOI growth of 4.4% for the three months ended December 31, 2022, compared to the three months ended December 31, 2021. This was due to a 4.6% increase in revenues, which was offset by a 5.0% increase in total property operating expenses. Revenue growth was generated from a 4.3% increase in the average rental rate on units renewed or turned in the quarter, coupled with a 50 bps increase in occupancy, from 98.2% to 98.7%.

General operating expenses increased 4.9% in Q4-2022 compared to the same period in 2021, due to inflationary cost pressures, including higher salary costs, increased property administration expenses and higher insurance costs.

Utility and fuel expenses were 11.4% higher for the three months ended December 31, 2022, as compared to the same period in 2021. This increase was driven by further increases in natural gas costs, which were up 36.7% in the fourth quarter compared to Q4-2021, as a result of higher commodity costs. Oil costs were also up by 13.8% compared to Q4-2021, as a result of a 55.8% increase in commodity pricing quarter-over-quarter.

Property taxes increased modestly by 0.7% quarter-over-quarter. Higher property tax assessments and rate increases were partially offset by successful property tax appeals.

Q4-2022 Occupancy

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

For the three months ended December 31,	# of Units	Total Occupancy			Same Property Occupancy		
		2022	2021	Change (bps)	2022	2021	Change (bps)
Halifax	5,986	99.0%	98.9%	10	99.0%	98.9%	10
Ottawa ⁽²⁾	1,592	92.2%	94.7%	(250)	97.9%	94.7%	320
London	523	98.9%	99.5%	(60)	98.9%	99.5%	(60)
KWC-GTA	1,839	98.8%	99.0%	(20)	99.4%	99.3%	10
Moncton	2,342	99.4%	98.4%	100	99.4%	99.0%	40
Fredericton	1,529	98.1%	97.6%	50	98.1%	97.6%	50
Saint John	1,202	98.2%	98.6%	(40)	98.2%	98.6%	(40)
St. John's	1,103	97.6%	94.9%	270	97.7%	95.0%	270
Charlottetown	1,249	99.5%	99.4%	10	99.5%	99.3%	20
Calgary	764	99.2%	97.0%	220	99.3%	96.3%	300
Edmonton	882	97.0%	95.2%	180	97.7%	96.0%	170
Victoria	516	97.7%	99.2%	(150)	97.3%	99.2%	(190)
Total Apartments (weighted average)	19,527	98.2%	98.1%	10	98.7%	98.2%	50

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

(2) Q4-2022 occupancy for Ottawa was impacted by two recently completed development projects undergoing initial lease-up.

Overall apartment occupancy increased 10 bps to 98.2% in the fourth quarter of 2022 compared to 98.1% for the fourth quarter of 2021, due to strong market fundamentals. Same property occupancy was 98.7%, a 50 bps increase compared to Q4-2021.

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Apartment Same Property NOI by Region

Three months ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2022	2021	% Change	2022	2021	% Change	2022	2021	% Change
Nova Scotia									
Halifax	\$23,853	\$22,887	4.2%	(\$8,243)	(\$7,741)	6.5%	\$15,610	\$15,146	3.1%
	23,853	22,887	4.2%	(8,243)	(7,741)	6.5%	15,610	15,146	3.1%
Ontario									
Ottawa	4,201	3,983	5.5%	(1,431)	(1,346)	6.3%	2,770	2,637	5.0%
London	2,284	2,187	4.4%	(831)	(795)	4.5%	1,453	1,392	4.4%
KWC-GTA	4,500	4,295	4.8%	(1,456)	(1,336)	9.0%	3,044	2,959	2.9%
	10,985	10,465	5.0%	(3,718)	(3,477)	6.9%	7,267	6,988	4.0%
New Brunswick									
Moncton	7,612	7,309	4.1%	(3,132)	(3,074)	1.9%	4,480	4,235	5.8%
Fredericton	5,569	5,237	6.3%	(2,111)	(2,070)	2.0%	3,458	3,167	9.2%
Saint John	3,597	3,418	5.2%	(1,539)	(1,530)	0.6%	2,058	1,888	9.0%
	16,778	15,964	5.1%	(6,782)	(6,674)	1.6%	9,996	9,290	7.6%
Newfoundland and Labrador									
St. John's	3,243	3,064	5.8%	(1,083)	(1,056)	2.6%	2,160	2,008	7.6%
	3,243	3,064	5.8%	(1,083)	(1,056)	2.6%	2,160	2,008	7.6%
Prince Edward Island									
Charlottetown	3,767	3,701	1.8%	(1,620)	(1,549)	4.6%	2,147	2,152	(0.2)%
	3,767	3,701	1.8%	(1,620)	(1,549)	4.6%	2,147	2,152	(0.2)%
Alberta									
Calgary	2,230	2,039	9.4%	(877)	(808)	8.5%	1,353	1,231	9.9%
Edmonton	2,525	2,414	4.6%	(928)	(859)	8.0%	1,597	1,555	2.7%
	4,755	4,453	6.8%	(1,805)	(1,667)	8.3%	2,950	2,786	5.9%
British Columbia									
Victoria	1,751	1,713	2.2%	(519)	(482)	7.7%	1,232	1,231	0.1%
	1,751	1,713	2.2%	(519)	(482)	7.7%	1,232	1,231	0.1%
	\$65,132	\$62,247	4.6%	(\$23,770)	(\$22,646)	5.0%	\$41,362	\$39,601	4.4%

Same Property Rental Increases – Tenant Renewals Versus Unit Turns

Upon turn, Killam will typically generate rental increases by moving rental rates to market and, where market demand exists, by upgrading units for unlevered returns of 10%–15% on capital invested. Killam saw a 120 bps increase in its same property weighted average rental increase in Q4-2022, up to 4.3%, compared to 3.1% in Q4-2021. This increase was a result of higher rental increases on both unit turns and lease renewals. The weighted average rental increase on unit turns was up 320 bps to 12.0%, compared to 8.8% for the same period in 2021. Additionally, Killam saw a 70 bps increase in the weighted average rental increase on lease renewals quarter-over-quarter, up from 1.4% in Q4-2021 to 2.1% in Q4-2022. The chart below summarizes the rental increases earned during the three months ended December 31, 2022 and 2021.

For the three months ended December 31,	2022		2021	
	Rental Increases	Turnovers & Renewals ⁽¹⁾	Rental Increases	Turnovers & Renewals ⁽¹⁾
Lease renewal	2.1%	78.4%	1.4%	77.0%
Unit turn	12.0%	21.6%	8.8%	23.0%
Rental increase (weighted avg)	4.3%		3.1%	

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

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MHC Results

For the three months ended December 31,

	Total Portfolio			Same Property		
	2022	2021	% Change	2022	2021	% Change
Property revenue	\$4,347	\$4,161	4.5%	\$4,291	\$4,154	3.3%
Property operating expenses						
General operating expenses	1,200	1,159	3.5%	1,194	1,179	1.3%
Utility and fuel expenses	401	513	(21.8)%	386	379	1.8%
Property taxes	198	190	4.2%	195	190	2.6%
Total operating expenses	\$1,799	\$1,862	(3.4)%	\$1,775	\$1,748	1.5%
NOI	\$2,548	\$2,299	10.8%	\$2,516	\$2,406	4.6%
Operating margin %	58.6%	55.3%	330 bps	58.6%	57.9%	70 bps

The MHC same property portfolio generated a 4.6% increase in NOI in the fourth quarter, compared to Q4-2021. Revenues grew by 3.3% quarter-over-quarter due to a 2.4% increase in permanent MHC rental rates and increased revenue from Killam's seasonal resorts. Total same property operating expenses increased modestly by 1.5% due to higher utility recoveries in Q4-2022 compared to Q4-2021, resulting in only a 1.8% increase in utility and fuel expenses. Same property general operating expenses and property taxes also experienced small increases, up by 1.3% and 2.6% in the fourth quarter respectively.

Commercial Results

For the three months ended December 31,

	Total Portfolio			Same Property		
	2022	2021	% Change	2022	2021	% Change
Property revenue	\$4,992	\$4,689	6.5%	\$3,352	\$3,317	1.1%
Property operating expenses	2,211	2,046	8.1%	1,444	1,342	7.6%
NOI	\$2,781	\$2,643	5.2%	\$1,908	\$1,975	(3.4)%

Killam's overall commercial portfolio saw a 6.5% increase in revenue and a 8.1% increase in property operating expenses, resulting in a 5.2% increase in NOI in the fourth quarter, compared to Q4-2021. Earning growth at Charlottetown's Royalty Crossing was a key contributor to the 5.3% growth in Q4 2022.

The commercial same property results in Q4-2022 include: Westmount Place, located in Waterloo; the Brewery Market in downtown Halifax; three smaller commercial properties, one of which is Killam's head office, located in Halifax; and a small commercial property in Moncton. Overall, same property commercial revenue grew by 1.1% during Q4-2022, as rental rate increases were offset by a slight increase in vacancy. Same property operating expense increased by 7.6%, largely due to timing of repairs and maintenance costs coupled with property tax increases. This resulted in a 3.4% decrease in NOI during the quarter, compared to the same period in 2021.

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Q4 FFO

For the three months ended December 31,	\$2,022	2021	% Change
Net income (loss)	(\$9,810)	\$74,801	(113.1)%
Fair value adjustment on unit-based compensation	309	831	(62.8)%
Fair value adjustment on Exchangeable Units	3,898	9,370	(58.4)%
Fair value adjustment on investment properties	34,084	(66,012)	(151.6)%
Non-controlling interest	(4)	(4)	—%
Deferred tax expense	3,363	10,716	(68.6)%
Interest expense related to Exchangeable Units	688	701	(1.9)%
Unrealized loss (gain) on derivative liability	71	(69)	(202.9)%
Internal commercial leasing costs	90	147	(38.8)%
Depreciation on owner-occupied building	24	26	(7.7)%
Change in principal related to lease liabilities	6	7	(14.3)%
FFO	\$32,719	\$30,514	7.2%
FFO per unit – diluted	\$0.27	\$0.27	—%
FFO per unit – diluted	\$0.27	\$0.27	—%
Weighted average number of units – basic (000s)	120,510	114,408	5.3%
Weighted average number of units – diluted (000s)	120,676	114,571	5.3%

Killam earned FFO of \$32.7 million, or \$0.27 per unit (diluted), for the three months ended December 31, 2022, compared to \$30.5 million, or \$0.27 per unit (diluted), for the three months ended December 31, 2021. FFO growth is primarily attributable to contributions from acquisitions and completed developments (\$1.8 million), same property NOI growth (\$1.8 million), and a reduction in administration costs (\$0.5 million). These increases were offset by a 5.3% increase in the weighted average number of units outstanding, as well as higher interest costs related to Killam's credit facility and higher rates on refinancings (\$1.9 million).

Q4 AFFO

For the three months ended December 31,	2022	2021	% Change
FFO	\$32,719	\$30,514	7.2%
Maintenance capital expenditures	(5,123)	(4,666)	9.8%
Commercial straight-line rent adjustment	(27)	(47)	(42.6)%
Internal and external commercial leasing costs	(152)	(132)	15.2%
AFFO	\$27,417	\$25,669	6.8%
AFFO per unit – basic	\$0.23	\$0.22	4.5%
AFFO per unit – diluted	\$0.23	\$0.22	4.5%
AFFO payout ratio – diluted	77%	78%	(100) bps
Weighted average number of units – basic (000s)	120,510	114,408	5.3%
Weighted average number of units – diluted (000s)	120,676	114,571	5.3%

The payout ratio of 77% for the three months ended December 31, 2022, improved 100 bps compared to the payout ratio in Q4-2021. The stability is attributable to a 6.8% increase in AFFO, driven by contributions from acquisitions and developments and same property NOI growth, offset by the impact of a 5.3% increase in the weighted average number of units outstanding.

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

PART IX

Selected Consolidated Financial Information

For the years ended December 31,	2022	2021	2020
Property revenue	\$328,847	\$290,917	\$261,690
Net income	\$122,532	\$285,527	\$146,040
FFO	\$132,603	\$119,235	\$104,678
FFO per unit – diluted	\$1.11	\$1.07	\$1.00
Investment properties	\$4,812,801	\$4,540,877	\$3,741,918
Total assets	\$4,859,530	\$4,578,507	\$3,776,560
Total liabilities	\$2,586,199	\$2,467,038	\$2,008,302
Distribution per unit	\$0.70	\$0.69	\$0.68

Risk Management

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

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

Killam is exposed to other risks, as outlined below:

Pandemic Risk and Economic Downturn

Pandemics, epidemics or disease outbreaks, such as the COVID-19 pandemic, may result in, international, national and local border closings, significant disruptions to business operations, financial markets, regional economies and the world economy and other changes to services, as well as considerable general concern and uncertainty. Such disruptions could adversely affect the ability of Killam's tenants to pay rent and increase Killam's credit risk. Although mass vaccination programs have been implemented in many jurisdictions worldwide and governments at varying levels have substantially removed restrictions relating to the COVID-19 pandemic, there can be no certainty such measures will successfully control the spread or resurgence of COVID-19 or its variants, and the COVID-19 pandemic or other outbreaks could materially interrupt Killam's supply chain and service providers, which could have material adverse effects on Killam's ability to maintain and service its properties. There can be no assurance that a disruption in financial markets, regional economies and the world economy, and the government measures to contain COVID-19, its variants, or other outbreaks will not negatively affect the financial performance or fair values of Killam's investment properties in a material manner.

Killam's response to the COVID-19 pandemic has been guided by local public health authorities and governments. Killam continues to closely monitor business operations and may take further actions that respond to directives of governments and public health authorities or that are in the best interests of employees, tenants, suppliers or other stakeholders, as necessary. Any such actions or changes in operations in response to COVID-19 could materially impact the business, operations and financial results of Killam. Future developments relating to the COVID-19 pandemic or other pandemics, epidemics or disease outbreaks, such as the possible resurgence in COVID-19 or its variants and the severity thereof, the speed and extent to which normal economic conditions are able to resume, and the effectiveness of government and central bank responses to the effects of the COVID-19 or other pandemics. There are no comparable recent events that provide guidance as to the effect the COVID-19 pandemic may have, and, as a result, it is not possible to reliably estimate the duration and severity of the ultimate and long-term consequences of the COVID-19 pandemic, as well as their impact on the financial position and results of Killam for future periods.

Inflation Risk

Killam does not believe that inflation has had a material effect on its business, financial condition or results of operations to date; however, if Killam's development, construction, operation or labour costs were to become subject to significant inflationary pressures, Killam may not be able to fully offset such higher costs through increases in rent to its tenants. Killam's inability or failure to do so could harm Killam's business, financial condition and results of operations. Further, there can be no assurance that any governmental action to mitigate inflationary cycles will be taken or be effective. Central banks have increased interest rates in response to inflation, and additional rate increases may occur. Governmental action, such as the imposition of higher interest rates or wage controls, may negatively impact Killam's financial results. In particular, certain of Killam's debt is at variable rates of interest exposes Killam to interest rate risk. If interest rates increase, Killam's debt service obligations on the variable rate indebtedness would increase, as discussed under "Interest Rate Risk" below. Continued inflation, any governmental response thereto, or Killam's inability to offset inflationary effects may have a material adverse effect on Killam's business, financial condition and results of operations.

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Interest Rate Risk

Interest rate risk is the risk that Killam would experience lower returns as the result of its exposure to a higher interest rate environment. Killam is exposed to interest rate risk as a result of its mortgages and loans payable; however, this risk is mitigated through Killam's strategy to have the majority of its mortgages payable in fixed-term arrangements. Killam also structures its financings to stagger the maturities of its debt, minimizing Killam's exposure to interest rates in any one year. Despite these risk mitigation efforts, any increases in interest may have an adverse effect on Killam's business, financial condition and results of operations.

As at December 31, 2022, \$218.6 million of Killam's debt had variable interest rates, including four construction loans totalling \$95.0 million, amounts drawn on credit facilities of \$121.0 million and one demand loan totalling \$2.6 million. These loans and facilities have interest rates of prime plus 0.55%–1.25% or 105–155 bps above BAs (December 31, 2021 - prime plus 0.5%–1.25% or 105–245 bps above BAs), and consequently, Killam is exposed to short-term interest rate risk on these loans.

Killam's fixed mortgage debt, which matures in the next 12 months, totals \$276.5 million. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by \$2.8 million per year.

Liquidity Risk

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

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill the commitments of their lease. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted for all new leases, and Killam also obtains a security deposit to assist in potential recovery requirements. Killam's bad debt expense has historically been less than 0.3% of revenues, and none of Killam's tenants account for more than 4% of tenant receivables as at December 31, 2022 or 2021. Any credit risk that materializes may have a material adverse effect on Killam's business, financial condition and results of operations.

Cyber Security Risk

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

Increased Supply Risk

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

Development Risk

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

Environmental Risk

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

Environmental laws and regulations can change rapidly, and Killam may be subject to more stringent environmental laws and regulations in the future. Killam mitigates its risk of losses associated with oil tank leaks by enforcing the requirement for appropriate insurance, performing regular oil tank inspections, and enforcing the removal of oil tanks when homes are sold at its MHC communities.

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General Uninsured Losses

Killam does not and will not carry insurance with respect to all potential casualties, damages, losses and disruptions. Killam does carry comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customary for the industry. There are, however, certain types of risks (generally of a catastrophic nature) that are either uninsurable or would not be economically insurable. There can be no assurance that the insurance proceeds received by Killam in respect of a claim will be sufficient in any particular situation to fully compensate Killam for losses and liabilities suffered. Losses and liabilities arising from uninsured or under-insured events could adversely affect Killam's business, financial condition or results of operations.

Rent Control Risk

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

In response to COVID-19, Ontario capped residential rents on existing tenants for 2024 at 2.5% and British Columbia capped residential rent increases on existing tenants at 2.0% for 2023. Nova Scotia currently has measures in place in response to COVID-19, limiting the maximum allowable rental increase on renewal to 2.0%. These temporary measures in Nova Scotia are in place until the end 2023.

The lack of availability of affordable housing and related housing policy and regulations is continuing to increase in prominence as a topic of concern at the various levels of government.

Accordingly, through different approaches, governments may enact policy or amend legislation in a manner that may have a material adverse effect on the ability for Killam to grow or maintain the historical level of cash flow from its properties.

In addition, laws and regulations providing for compliance with various housing matters involving tenant evictions, work orders, health and safety issues or fire and maintenance standards, etc. may become more stringent in the future. Killam may incur increased operating costs as part of its compliance with any such additional government legislation and regulations relating to housing matters, which may have an adverse effect on revenues.

Utility, Energy and Property Tax Risk

Killam is exposed to volatile utility and energy costs and increasing property taxes. Killam has the ability to raise rents on the anniversary date of its leases, subject to the overall rental market conditions, to offset rising energy and utility costs; however, rental increases may be limited by market conditions or regulation. Killam invests in energy-efficiency initiatives to reduce its reliance on utility costs; however, Killam remains exposed to price volatility and carbon tax on natural gas and heating oil. Killam has the ability to fix rates through the use of swap contracts for a portion of its oil and fixed contracts through suppliers for natural gas consumption in order to reduce the impact of fluctuations in commodity prices. The impact of such volatility could be increased if such utility costs cannot be hedged. To address the risk of property tax increases, Killam, along with the assistance of outside consultants, reviews property tax assessments and, where warranted, appeals them.

Fluctuation and Availability of Cash Distributions

Killam's distribution policy is established pursuant to the DOT and may only be changed with the approval of a majority of unitholders. However, the Board of Trustees may reduce or suspend cash distributions indefinitely, which could have a material adverse effect on the market price of the Trust Units. There can be no assurance regarding the amount of income to be generated by Killam's properties.

The ability of Killam to make cash distributions, and the actual amount distributed is at the sole discretion of the Board, will be entirely dependent on the operations and assets of Killam, and will be subject to various factors, including financial performance, obligations under applicable credit facilities, fluctuations in working capital, the sustainability of income derived from the tenant profile of Killam's properties, and capital expenditure requirements. Distributions may be increased, reduced or suspended entirely depending on Killam's operations and the performance of Killam's assets at the discretion of the Trustees. The market value of the Trust Units may deteriorate if Killam is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return of investors.

Ability of Unitholders to Redeem Units

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

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Exchangeable Units

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

Taxation-Related Risks

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

There can be no assurance that Canadian federal income tax laws in respect of the treatment of mutual fund trusts will not be changed in a manner that adversely affects Killam or its unitholders. If Killam ceases to qualify as a "mutual fund trust", it will be required to pay a tax under Part XII.2 of the Income Tax Act (Tax Act).

The payment of Part XII.2 tax by Killam may have adverse income tax consequences for certain of Killam's unitholders, including non-resident persons and trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit-sharing plans, registered retirement income funds, tax-free savings accounts and registered education savings plans ("designated savings plans"), which acquired an interest in Killam directly or indirectly from another Killam unitholder. If Killam ceases to qualify as a "mutual fund trust" under the Tax Act and Killam units cease to be listed on a designated stock exchange, Killam units will cease to be qualified investments for trusts governed by designated savings plans. Killam will endeavour to ensure its Trust Units continue to be qualified investments for trusts governed by the designated savings plans; however, there can be no assurance that this will be so.

The Tax Act imposes penalties for the acquisition or holding of non-qualified investments by such trusts. Unitholders should consult their own tax advisors in this regard, including as to whether Killam units are "prohibited investments" for registered retirement savings plans, registered retirement income funds, registered education savings plans, registered disability savings plans or tax-free savings accounts.

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

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

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

- At each time in the taxation year, the total fair market value at that time of all "non-portfolio properties" that are "qualified REIT properties" held by the Trust must be at least 90% of the total fair market value at that time of all non-portfolio properties held by the Trust;
- Not less than 90% of the Trust's "gross REIT revenue" for the taxation year is from one or more of the following: "rent from real or immovable properties", interest, capital gains from dispositions of "real or immovable properties" that are capital properties, dividends, royalties and dispositions of "eligible resale properties";
- Not less than 75% of the Trust's gross REIT revenue for the taxation year is derived from one or more of the following: rent from real or immovable properties, interest from mortgages on real or immovable properties, capital gains from dispositions of real or immovable properties that are capital properties;

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- At no time in the taxation year can the total fair market value of properties comprising real or movable property that is capital property, an “eligible resale property”, cash, deposits (within the meaning of the Canada Deposit Insurance Corporation Act or with a branch in Canada of a bank or a credit union), indebtedness of Canadian corporations represented by banker’s acceptances, and debt issued or guaranteed by the Canadian government or issued by a province, municipal government or certain other qualifying public institutions be less than 75% of the “equity value” (in each case, as defined in the Tax Act) of the Trust at that time; and
- Investments in the Trust must be, at any time in the taxation year, listed or traded on a stock exchange or other public market.

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

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

The REIT Exception is applied on an annual basis. Accordingly, if the Trust did not qualify for the REIT Exception in a particular taxation year, it may be possible to restructure the Trust such that it may qualify in a subsequent taxation year.

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

Other Canadian Tax Matters

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

Competition for Real Property Investments

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

Future Acquisitions of Real Property Investments

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

Zoning and Approval

Future acquisitions and development projects may require zoning and other approvals from local government agencies. The process of obtaining such approvals may take months or years, and there can be no assurance that the necessary approvals for any particular project will be obtained. Holding costs accrue while regulatory approvals are being sought, and delays could render future acquisitions and developments uneconomical and may have a material adverse effect on Killam's business, financial condition and results of operations.

Dependence on Key Personnel

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

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Market for Securities and Price Volatility

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

Co-ownership

Killam has co-ownership of four properties (seven buildings), two development projects and two parcels of land for future development that are subject to joint control and are joint operations. Risks associated with co-ownership include the risk of non-payment for operating and capital costs from the partner, risk of inability to finance a property associated with a joint venture or limited partnership, and the risk of a partner selling their interest in the properties. If any such risks materialize, they may have an adverse effect on Killam's business, financial condition or results of operations.

Ground Leases

Four of Killam's properties, including 6101 South Street and Chapter House located in Halifax, Oceanic Camping located in Shediac, New Brunswick, and 1033 Queen Street West in Toronto, are subject to long-term ground leases in which the underlying land is owned by an arms-length third party and leased to Killam. Under the terms of the ground lease, Killam must pay rent for the use of the land and is generally responsible for all the costs and expenses associated with the building and improvements. Unless the lease term is extended, the land, together with all the improvements made, will revert to the owner of the land upon the expiration of the lease. The leases are scheduled to expire in 2040 (there is an option for a ten-year renewal), 2080, 2105 and 2059, respectively. The total ground lease payments for the year ended December 31, 2022, were \$0.3 million (December 31, 2021 - \$0.3 million). There is no assurance that any lease will be extended or renewed on terms acceptable to Killam or at all. The extension or renewable of any ground lease on terms less favourable to Killam or the expiration of any ground lease may have a material adverse effect on Killam's business, financial condition and results of operations.

Climate Change and Environmental Laws

Killam is exposed to physical climate change risk, including rising sea levels, natural disasters, and severe weather, such as heavy rain and flooding, high winds, wildfires, blizzards, ice storms and thunderstorms that may cause damage to its investment properties. As weather becomes more erratic, damage to investment properties may result in increased restoration costs, loss of revenue in the event of business disruption, potential decrease in property values and increased costs to insure properties against climate-related risks. Physical and transitional climate-related risks are considered by the Trust as part of its ongoing risk management processes. The materiality of such risks varies among the business operations of Killam and the jurisdictions in which such operations are conducted. Despite the potential uncertainties and longer-time horizon associated with any such risks, the Trust considers the impacts of climate change-related risks over the short, medium and long terms. In the long term, Killam plans to move towards operating its portfolio with net-zero carbon emissions to combat its impact on climate change.

In addition, environmental legislation and policies, which can change rapidly, have become increasingly important and generally more restrictive in recent years. Under various federal, provincial and local environmental laws, ordinances and regulations, Killam could be liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in monitoring its properties or disposed of by or on behalf of Killam at other locations. The failure to remove, monitor or remediate any such substances, if any, may adversely affect Killam's ability to sell its real estate, or to borrow using such real estate as collateral, and could potentially also result in regulatory enforcement proceedings and/or private claims against Killam. Although Killam is not aware of any material noncompliance with environmental laws at any of its properties, nor is it aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any material pending or threatened claims relating to environmental conditions at its properties, no assurance can be given that environmental laws will not result in significant liability to Killam in the future, or otherwise adversely affect Killam's business, financial condition or results of operations.

ESG Targets and Commitments

Killam has announced certain targets and ambitions relating to ESG. To achieve these goals and to respond to changing market demand, Killam may incur additional costs and invest in new technologies. It is possible that the return on these investments may be less than Killam expects, which may have an adverse effect on its business, financial condition and reputation. Generally speaking, Killam's ability to meet its targets depends significantly on Killam's ability to execute its current business strategy, related milestones and schedules, each of which can be impacted by the numerous risks and uncertainties associated with our business and the industries in which it operates, as outlined in the other risk factors described in this MD&A.

Killam recognizes that investors and stakeholders increasingly compare companies based on ESG-related performance. Failure by Killam to achieve its ESG targets, or a perception among key stakeholders that its ESG targets are insufficient, could adversely affect, among other things, Killam's cost of capital, reputation and ability to attract capital or obtain insurance.

There is also a risk that some or all of the expected benefits and opportunities of achieving the various ESG targets may fail to materialize, may cost more to achieve or may not occur within the anticipated time periods. In addition, there are risks that the actions taken by Killam in implementing targets and ambitions relating to ESG may have a negative impact on its existing business and operations and increase capital expenditures, which could have a negative impact on Killam's business, financial condition, results of operations and cash flows.

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International Conflict

International conflict and other geopolitical tensions and events, including war, military action, terrorism, trade disputes, and international responses thereto have historically led to, and may in the future lead to, uncertainty or volatility in global energy and financial markets. Russia's invasion of Ukraine has led to sanctions being levied against Russia by the international community and may result in additional sanctions or other international action, any of which may have a destabilizing effect on global economies. Volatility in energy and financial markets, including increased commodity prices, may adversely affect Killam's business, financial condition and results of operations. The extent and duration of the current Russian-Ukrainian conflict and related international action cannot be accurately predicted at this time and the effects of such conflict may magnify the impact of the other risks identified in this MD&A. The situation is rapidly changing and unforeseeable impacts, including on Killam, its stakeholders, and parties on which we rely, may materialize and may have an adverse effect on Killam's business, results of operation and financial condition.

Legal and Litigation Risk

Killam is subject to a wide variety of laws and regulations across all jurisdictions and faces risks associated with legal and regulatory changes. If Killam fails to monitor and become aware of changes in applicable laws and regulations or if Killam fails to comply with these changes in an appropriate and timely manner, it could result in fines and penalties, litigation, or other significant costs, as well as significant time and effort to remediate any violations. Further, Killam may be involved in various claims and actions arising in the course of operations. Accruals for litigation, claims and assessments are recognized if Killam determines that the loss is probable, and the amount can be reasonably estimated. Killam believes it has made adequate provisions for such legal claims. Although the outcome of these claims is uncertain, Killam does not expect these matters to have a material adverse effect on Killam's financial position, cash flows or operational results. If an unfavorable outcome were to occur, there exists the possibility of a loss or material adverse impact on Killam's financial position in the period in which the outcome is determined. Additionally, any legal claims or violations could result in reputational damage to Killam both from an operating and an investment perspective.

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

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

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

Critical Judgments in Applying Accounting Policies

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

(i) Income taxes

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

(ii) Investment property and internal capital program

The Trust's accounting policy relating to investment properties is described in note 2(G) to the consolidated financial statements. In applying this policy, judgment is applied in determining the extent and frequency of utilizing independent, third-party appraisals to measure the fair value of the Trust's investment properties.

Additionally, judgment is applied in determining the appropriate classes of investment properties in order to measure fair value. The Trust also undertakes internal capital improvements and upgrades. Such work is specifically identified, and the Trust applies judgment in the estimated amount of directly attributable salaries to be allocated to capital improvements and upgrades of its investment properties.

(iii) Financial instruments

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

(iv) Basis of consolidation

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

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(v) Revenue recognition

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

Key Accounting Estimates and Assumptions

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

(i) Valuation of investment properties

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

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

(ii) Deferred unit-based compensation

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

(iii) Deferred taxes

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

Future Accounting Policy Changes

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

Amendments to IAS 1, Presentation of Financial Statements, Amendments to Classification of Liabilities as Current or Non-Current

In January 2020 and October 2022, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to specify the requirements for classifying liabilities as current or non-current. The amendments clarify the definition of a right to defer settlement, clarify what is meant by settlement, and specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.

The amendments are effective for annual periods beginning on or after January 1, 2024. The amendments must be applied retrospectively, earlier application is permitted and must be disclosed. Management has determined that the Exchangeable Units will be required to be presented as current. Killam is in the process of assessing the impact the amendments may have on future financial statements and plans to adopt the new standard retrospectively on the required effective date.

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Disclosure Controls, Procedures and Internal Controls

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

Disclosure Controls and Procedures

As of December 31, 2022, Management evaluated the effectiveness of the operation of its disclosure controls and procedures (Disclosure Controls), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer, with the assistance of Management.

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

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

Internal Controls over Financial Reporting

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

As at December 31, 2022, Killam's President and Chief Executive Officer and its Chief Financial Officer, with the assistance of Management, assessed the effectiveness of the ICFR using the criteria set forth in "Internal Control - Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on that assessment, Killam determined that the ICFR were designed and operating effectively as at December 31, 2022, and did not make any changes to the design of ICFR in 2022 that have materially affected, or are reasonably likely to materially affect, the ICFR.

Related Party Transactions

Killam owns a 50% interest in two commercial properties located at 3700 & 3770 Kempt Road in Halifax, NS, and the remaining 50% interest in these properties is owned by an executive and Trustee of Killam. These properties are managed by a third party. Killam's head office occupies approximately 26,000 SF of one of the buildings with base rent of approximately \$14.00 per SF, of which 50% is paid to the related party based on the ownership interest.

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

For the years ended December 31,	2022	2021
Salaries, board compensation and incentives	\$5,978	\$6,162
Deferred unit-based compensation	2,191	2,078
Total	\$8,169	\$8,240

Subsequent Events

On January 17, 2023, Killam announced a distribution of \$0.05833 per unit, payable on February 15, 2023, to unitholders of record on January 31, 2023.