





Killam Properties Inc | Annual Report 2010

Strong Foundations

About Killam Properties Inc.

Killam Properties Inc. is one of Canada's largest residential landlords, owning and operating 9,726 apartment units and 9,290 manufactured home communities (MHC) sites. Starting with its first acquisition in 2002, Killam has built an established portfolio of 181 quality properties and a strong operating platform. Management is committed to building on this strong foundation, maximizing the return on Killam's assets and continuing to grow through acquisitions and development.

Killam's Mission

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

100 & 200 Eagle Street North, Cambridge, Ontario

Highlights of 2010

Completed $115 million in property acquisitions.

Expanded the geographic footprint of Killam's apartment portfolio with the acquisition of three buildings in Ontario.

Increased the profitability of the same store portfolio, achieving same store net operating income growth of 4.8%.

Maintained high occupancy levels throughout the year, with average year-end occupancy of 98.3%.

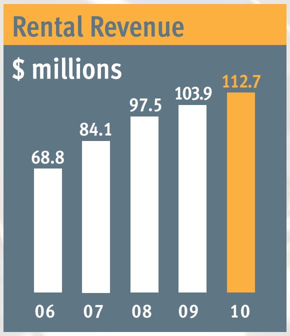
Increased funds from operation per share by 1.4% to $0.74.

Strengthened the balance sheet, reducing total gross debt to the gross book value of assets to 63.8%.

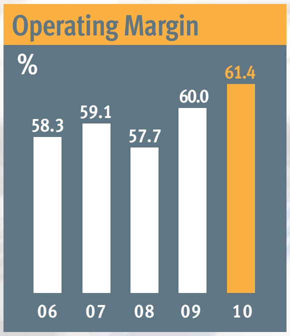
Began construction of Killam's first apartment development project.

Killam's stock value increased by 18.8%, driving a total annual return for shareholders of 25.1%.

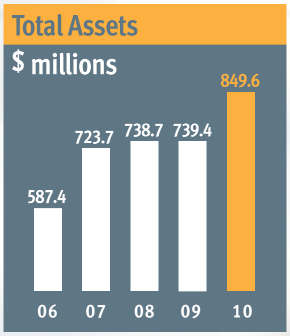
Killam by the Numbers



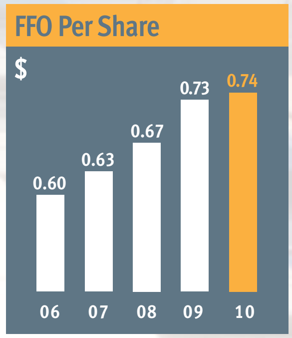
Killam's 8.5% increase in rental revenue is attributable to increased rental rates and acquisitions completed during 2010.



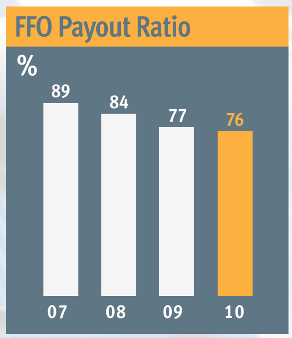
High occupancy, increased rents and stable operating costs contributed to Killam achieving its highest operating margin in history during 2010.



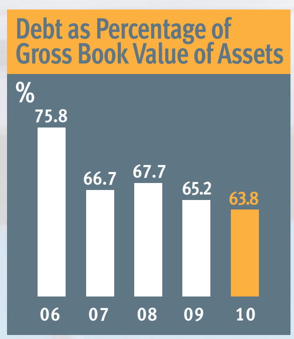
Killam's total assets increased by 15% in 2010 following $115 million of acquisitions. The acquisitions included 769 apartment units. As of December 31 2010, Killam's portfolio included 9,726 apartment units and 9,290 MHC sites.



Funds from operations (FFO*) per share increased by 1.4% in 2010 to $0.74. Earnings from same store properties and the positive impact of $115 million in new acquisitions more than offset a 19.7% increase in the weighted average number of shares outstanding.



Killam's FFO payout ratio, defined as dividends as a percentage of FFO, was 76% in 2010. The payout ratio has improved annually since the dividend was introduced in 2007. The annualized dividend, paid on a monthly basis, is $0.56 per share.



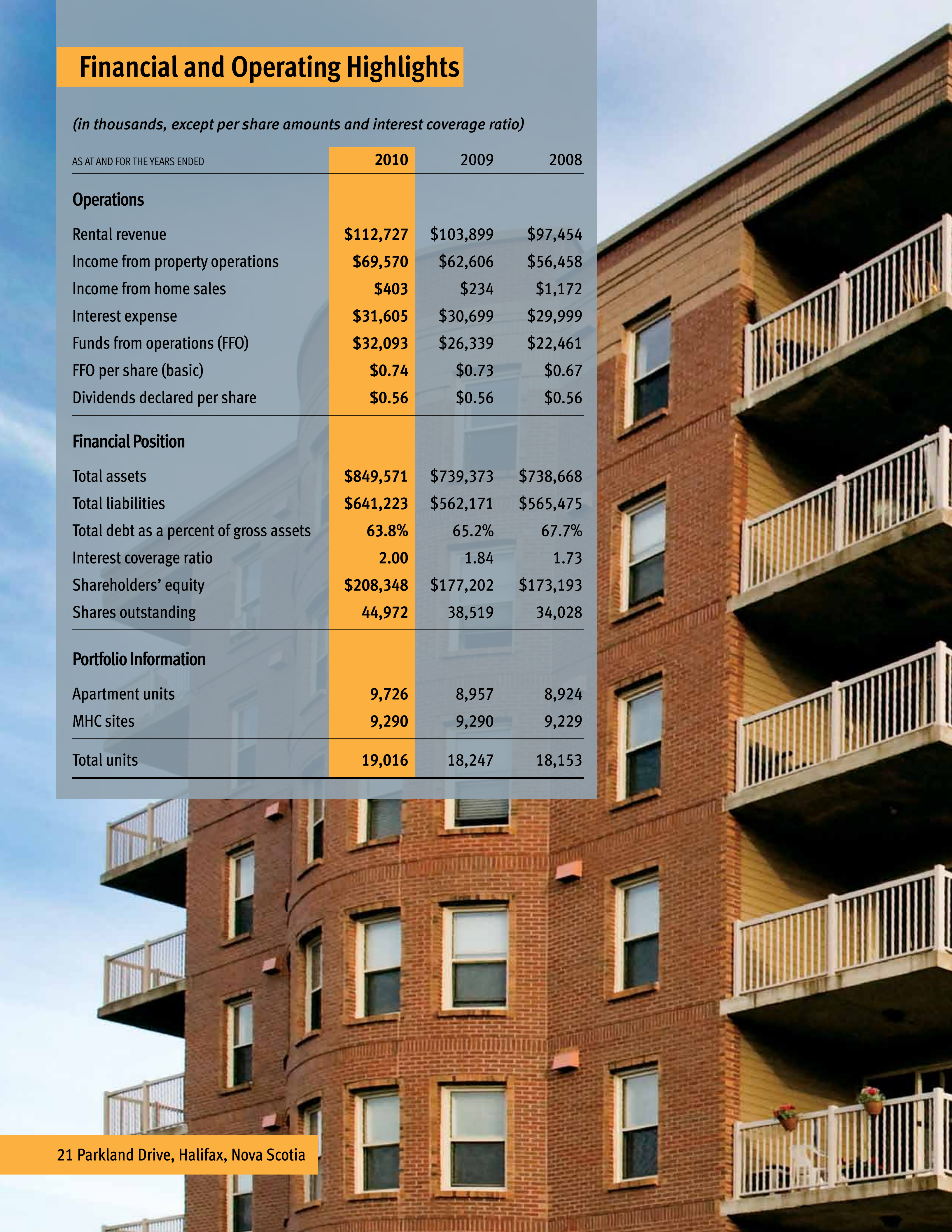
Killam ended 2010 with debt levels as a percentage of the gross book value of assets of 63.8%. Killam's debt levels have improved considerably over the last four years.

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

Financial and Operating Highlights

(in thousands, except per share amounts and interest coverage ratio)

AS AT AND FOR THE YEARS ENDED	**2010**	2009	2008
Operations			
Rental revenue	**$112,727**	$103,899	$97,454
Income from property operations	**$69,570**	$62,606	$56,458
Income from home sales	**$403**	$234	$1,172
Interest expense	**$31,605**	$30,699	$29,999
Funds from operations (FFO)	**$32,093**	$26,339	$22,461
FFO per share (basic)	**$0.74**	$0.73	$0.67
Dividends declared per share	**$0.56**	$0.56	$0.56
Financial Position			
Total assets	**$849,571**	$739,373	$738,668
Total liabilities	**$641,223**	$562,171	$565,475
Total debt as a percent of gross assets	**63.8%**	65.2%	67.7%
Interest coverage ratio	**2.00**	1.84	1.73
Shareholders' equity	**$208,348**	$177,202	$173,193
Shares outstanding	**44,972**	38,519	34,028
Portfolio Information			
Apartment units	**9,726**	8,957	8,924
MHC sites	**9,290**	9,290	9,229
Total units	**19,016**	18,247	18,153



21 Parkland Drive, Halifax, Nova Scotia

President's Letter

Dear Shareholders,

I am pleased to have the opportunity to share with you the highlights of Killam's performance and operating activities from 2010, and to discuss the focus for the year ahead. 2010 was a year of growth for Killam, achieving 4.8% growth in net operating income (NOI) from Killam's same store properties, expanding the portfolio with $115 million in acquisitions, entering the Ontario apartment market, beginning the Company's first new apartment development project and the continued strengthening of Killam's balance sheet.

The past year marked ten years since Killam was incorporated. Although the Company's first acquisition wasn't until 2002, it was during the year 2000 that the concept of building a public multi-residential company focused in Atlantic Canada was developed and Killam Properties Inc., then only a shell company, was listed on the TSX Venture Exchange. It's rewarding to see that this concept has grown into what Killam is today, a company with 181 properties, a 12% market share of apartments in our core markets in Atlantic Canada, and a presence in 7 provinces across the country.

The evolution of Killam will continue in the years ahead. We doubled our real estate portfolio over the last five years, from a gross book value of assets of $466 million at December 31, 2005 to $952 million at December 31, 2010. Looking out at the next five to seven years, we see the opportunity to do the same again. In addition to growing through acquisitions, we expect to build new apartment buildings and continue to increase the earnings of our existing portfolio.

Strong Foundations

We've titled this year's annual report "Strong Foundations". This concept of strong foundations represents a number of areas for Killam: 1) We have an established portfolio of apartments in Atlantic Canada and manufactured home communities (MHCs) across Canada. This strong foundation of assets will allow us to grow our earnings organically, and with a solid established operating platform, support future acquisitions. 2) Our portfolio of assets is well maintained. We've invested capital in our properties, resulting in strong demand for our units, and stable and predictable capital maintenance requirements. 3) We have a strong team of managers and employees with a proven ability to deliver results, both by continually increasing the profitability of our properties, and through the successful purchasing and integration of accretive acquisitions. I believe that these strong foundations will allow Killam to continue to grow and achieve success in the years ahead.

Strong Operations in 2010

Internally, the three most significant performance metrics that we focus on are same store revenue growth, same store NOI growth and funds from operations (FFO) per share growth. We were successful at achieving growth in all these areas during 2010.

We increased the revenue from our same store properties, representing 95% of our apartment and MHC units, by 2.9% during 2010. This increase was attributable to higher rents and stable occupancy. We increased monthly rents an average of 2.2% for our apartment units and 4.5% for our MHC sites. We benefit by having 85% of our revenue generated in markets without rent control, allowing us to increase rents to market on a regular basis. Our residential and property managers keep a close eye on the rental market and have been successful at implementing rental increases while still maintaining high occupancy levels. We believe our portfolio has the ability to generate higher rents in 2011. Based on our high occupancy and the continued stability of the Atlantic Canadian economy, we are targeting rental increases averaging 3% during 2011.

Same store NOI growth measures how well we're able to manage our expenses, along with the impact of our top-line growth. During 2010, same store NOI increased by 4.8%. This marks seven consecutive years of same store NOI growth for Killam. In addition to the positive contribution from improved rents, expenses remained relatively flat during the year, as operating efficiencies and lower heating costs more than offset higher property tax expense.

We consider FFO per share as the ultimate measure of performance for the Company. During 2010, Killam's FFO per share increased by 1.4% to $0.74, from $0.73 in 2009. A 21.8% increase in FFO in the year from new acquisitions and same store NOI growth was offset by a 19.7% increase in the weighted average number of shares outstanding, following a $50.6 million common share issuance in March 2010. The equity raise provided capital to fund our 2010 acquisition program, and to strengthen our balance sheet. The timing of deployment of the funds raised impacted our FFO per share results. We look forward to benefiting from a full year of ownership from our new properties in 2011.

"This marks seven consecutive years of same store NOI growth for Killam."

Acquisition Activity in 2010

Killam completed acquisitions totalling $115 million in 2010, acquiring 769 apartment units. It was satisfying to return to growing Killam's portfolio through acquisitions, after little activity in 2008 and 2009. The properties that we acquired included a mix of new "A Class" properties in Ontario and both newer construction and desirable older properties in our core markets in Atlantic Canada. Our Ontario acquisitions included properties in Cambridge and London.

We expect Killam's 2011 acquisition program to be similar to 2010, with a balance of acquisitions between our core markets in Atlantic Canada and purchases in specific markets in Ontario. We continue to have a preference for "A Class" properties, but are also interested in more mature properties that complement our existing portfolio. Our goal for 2011 is to complete between $100 million and $150 million of acquisitions.

Development

In addition to acquisitions, we're growing the portfolio through new developments. This initiative will allow us to maximize the potential of our most valuable pieces of surplus land, and increase the number of new, modern properties in our portfolio.

During 2010, Killam started construction on its first apartment development. Charlotte Court in Charlottetown, Prince Edward Island, is a two-phase project with a total of 98 units and an estimated cost of approximately $11 million. We expect to complete construction of the 49-unit phase I this summer, at which time phase II will begin.

We're finalizing plans and pricing for two other developments that we expect to begin this year, including a 63-unit building in Halifax at our Shaunslieve Apartments property and a 101-unit building on surplus land at our Forest Hills property in Fredericton. We expect construction costs for these two projects to come in between $150,000 and $190,000 a door, for total costs of $25 million to $32 million. We're also in the planning stages of development projects in Moncton and St. John's.

We are enthusiastic about moving into the development of apartment properties and believe that our focus on new, quality properties, both through acquisition and development, will enhance the long-term strength and stability of Killam.

A Stronger Balance Sheet

We are pleased with the improvements we made in strengthening the balance sheet last year, ending 2010 with debt as a percentage of the gross book value of assets at 63.8%. Killam's debt levels have improved considerably over the last four years, down from 75.8% at December 31, 2006. We're comfortable with the Company's current leverage and expect to continue to operate at this level during 2011.

The low interest rate environment allowed Killam to refinance mortgage debt at very attractive rates in 2010. Killam successfully refinanced $52 million in maturing mortgages. The related properties were refinanced with $75 million of fixed rate mortgages at a weighted average rate of 4.22%, including 3.85% for the apartments and 5.36% for the MHCs. The weighted average interest rate on the mortgages that matured in 2010 was 5.29%. The lower interest rates will have a positive impact on FFO, and the ability to draw funds on the equity we have built-up in our properties, upon refinancing, helps to fund our growth.

Killam further capitalized on the low interest rate environment in 2010 by issuing convertible debentures in November. The $57.5 million convertible unsecured subordinated debentures bear interest at 5.65% and mature in 2017. The funds raised were primarily used to redeem Killam's $42.2 million debentures on December 13, 2010. The offering allowed Killam to reduce the interest rate on its convertible debentures and to extend the term to maturity another five years. The interest rate on the new debentures is 85 basis points lower than the rate on the debentures they replaced. The additional funds raised from the November offering are expected to be applied to property acquisitions and development projects in 2011.

> ***"We expect to build our real estate portfolio this year with the acquisition of between $100 million and $150 million of properties."***

We believe that a conservative balance sheet is best for the Company, and for our shareholders. In addition to lowering our debt levels, we've mitigated the risk associated with rising interest rates by staggering Killam's future debt maturities, fixing interest rates, and increasing our use of Canada Mortgage and Housing Corporation (CMHC) insured financing. We have $50 million in mortgages due for refinancing in 2011, including $45 million in apartments and $5 million in MHCs. We don't anticipate any difficulties in renewing this debt.

Looking Forward

We are optimistic about the year ahead. We anticipate continued strong occupancy levels at our existing properties in 2011 and the ability to pass through rental increases. The largest operating challenge we anticipate is the continued pressure on costs, including the seemingly constant increases to property taxes and utility costs. We have invested in capital programs to mitigate the impact of these increases by reducing our energy consumption and by improving operating efficiencies to maximize our economies of scale. We expect to implement additional operating efficiencies in 2011 to help offset anticipated increased costs, aiming to achieve our targeted same store NOI growth of 3%.

We expect to grow our real estate portfolio this year with the acquisition of between $100 million and $150 million of properties. We see opportunities for Killam to grow by focusing on quality properties, including newer construction and more established buildings in prime locations. We'll also invest in development in 2011. We plan to grow the portfolio through both of these programs while maintaining our leverage at current levels.

We will keep you updated on our progress on these initiatives through our quarterly reports. I would like to thank Killam's Board, management and employees for their contributions during 2010 and to thank you, the shareholder, for your support and interest in Killam Properties Inc.

Philip Fraser
President & CEO

Q&A Philip Fraser, President & CEO

What do you see as the greatest opportunity for Killam?

I believe the greatest opportunity for Killam is to grow our base of newer assets, both through acquisitions and through development. The average age of our apartment portfolio is 27 years, which is younger than many of our peers, and the Canadian rental housing stock in general. Approximately 15% of our apartment properties are of newer construction, built within the last 10 years. There is strong demand for these newer assets, with tenants willing to pay considerably more for new construction. In addition to generating higher long-term returns, the on-going capital costs associated with newer buildings are less than older buildings, with capital requirements for new assets driven by the turn-over of units, not by deferred maintenance.

Our focus on buying newer construction and on development will enable Killam to meet tenants' demand for "new", continue to be competitive in the years ahead and, we believe, will differentiate Killam as the owner of premium rental properties in Canada.

What's the biggest challenge?

The challenge for Killam is to improve margins in an environment of rising costs. We have been successful at generating operating efficiencies; however the increasing cost of electricity, water and property taxes is a constant challenge. Killam's exposure to heating oil and natural gas prices in an environment of rising commodity prices could adversely impact our operating margins.

To mitigate the exposure to rising utility and heating costs, Killam continues to invest in energy conservation and other green initiatives. In 2010 this included installing water monitoring equipment to track water consumption, which helps detect leaks earlier, installing solar panels on three buildings, and partnering with Halifax's Ecology Action Centre to identify additional projects that will reduce Killam's carbon footprint.

We are increasing rents to offset higher costs. During 2010, monthly rental rates increased an average of 2.7%. Given high occupancy levels and rising operating costs, we expect to increase rents an average of 3% in 2011.

During 2010 you completed $115 million in apartment acquisitions, but no MHC acquisitions. Do you have plans to grow the MHC business?

We value our MHC business. With 99% occupancy, high operating margins and low capital requirements, MHCs offer a stable and predictable cash flow for Killam. Unfortunately, the consolidation opportunity for MHCs is limited compared to that for apartments; many of the larger communities have been consolidated or are not available for sale today.

We're focusing acquisition efforts on the apartment business. If an MHC acquisition opportunity were to arise we would look at it, but we are not actively seeking acquisitions to grow this part of the business beyond site expansions on properties we already own. Going forward, we expect that the MHC business will represent a smaller percentage of Killam's net operating income than the 23% it represents today. That being said, we have no plans to change our position in our MHC portfolio and continue to believe that it is a very complementary business to our apartment portfolio.

Q&A Robert Richardson, Executive Vice President & CFO

What is Killam's exposure to higher interest rates?

At December 31, 2010 Killam's total gross debt outstanding was $637 million, representing 63.8% of the gross book value of the Company's assets. Killam's debt consists primarily of fixed-rate, long-term mortgage financing. Of the total debt outstanding, $574 million, or 90%, is mortgage debt with an average term to maturity of 4.0 years, $53 million, or 8%, is convertible subordinated debentures that mature in 2017, and $10 million, or 2%, represents subordinated debentures that mature in 2013.

Although we have exposure to potentially rising interest rates, we have been strategic in mitigating the potential short-term impact of rising rates. Firstly, we have staggered maturity dates. Killam's mortgage maturities are spread out over the next 9 years, with approximately 9% of the Company's mortgage debt maturing in 2011 and another 8% maturing in 2012. Secondly, we use fixed-rate debt. As at the end of 2010, Killam had no floating debt outstanding. The only floating debt we expect to have in the future relates to short-term construction financing on our development projects. Thirdly, we have taken advantage of longer-term debt over the last year, adding some mortgages with 10-year terms where feasible. We believe the interest rate environment that we've experienced over the last year may well be the lowest for many years ahead and we sought to lock-in these low rates where possible. Lastly, we have access to Canada Mortgage and Housing Corporation (CMHC) insured debt on our apartment mortgages, which traditionally allow for lower rates than conventional mortgage financing. At the end of the 2010, 56% of Killam's apartment mortgages were CMHC insured. We expect to increase this percentage on an annual basis as maturing mortgages that are not CMHC insured are replaced with CMHC insured debt.

How much should we expect in capital expenditures on an annual basis from the current portfolio?

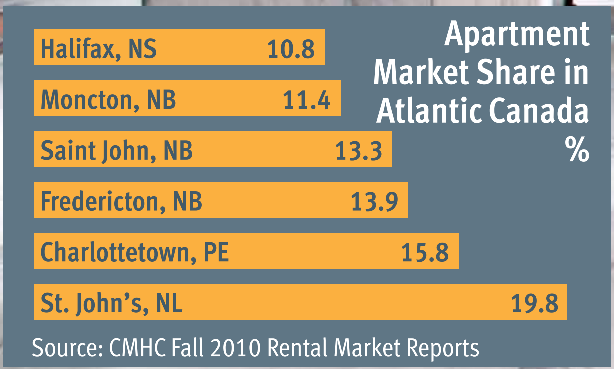
We expect to invest $800 per apartment unit and $200 per MHC site on capital improvements on an annual basis. Based on our unit count at the end of 2010, this translates into approximately $10 million for 2011. A portion of this investment is for regular property capital requirements, such as new roofs and windows. Also included in the annual capital spend are suite and common area upgrades, many of which will support higher rental rates.

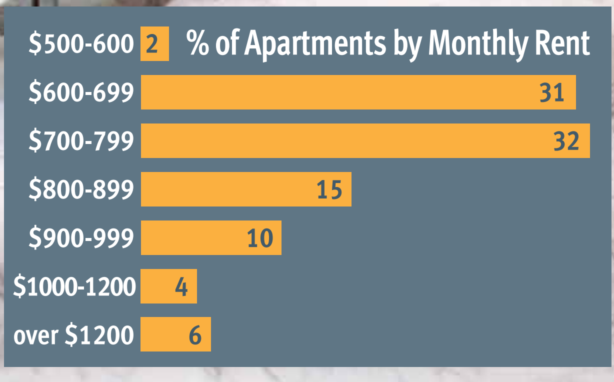
In addition to capital improvements on the existing portfolio, Killam invests annually in both development and energy projects. These are generally sizeable standalone projects that are expected to earn a positive return through revenue growth or improved operating efficiencies. The annual spend on development and energy initiatives will vary annually depending on the number and nature of projects.

Strong Foundations

A Stable and Diverse Portfolio | One of Killam's key strengths is its portfolio of assets. Killam has 181 properties across Canada, including 126 apartment properties and 55 manufactured home communities.

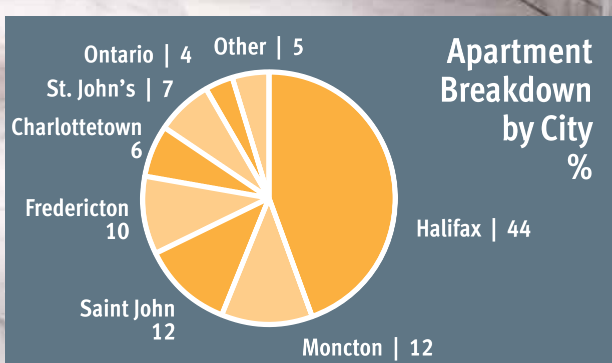
The majority of the apartment portfolio is located in Atlantic Canada's six main urban centres, including four provincial capitals. Killam has established itself as a market leader in each of these cities, with a market share of approximately 12% of the urban Atlantic Canadian apartment market. Economic stability and strong demand for apartment rentals in Killam's core markets has resulted in consistent annual rental growth. The portfolio includes a wide range of asset types and rental rates, from mid-market rents in four storey walk-ups to high-end suites in newly constructed high-rises, leading to a diverse tenant base.

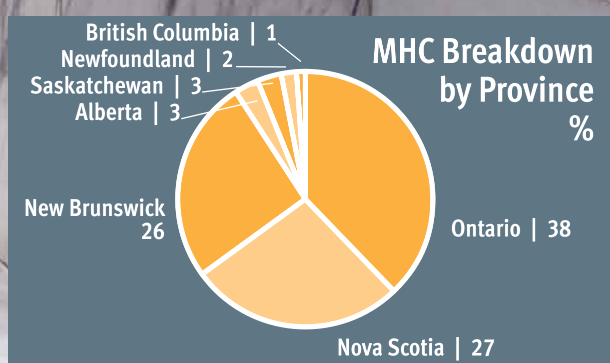




Killam's MHC portfolio includes communities from British Columbia to Newfoundland, and is an ideal complement to the apartment portfolio. MHC tenants own their homes and lease the land; Killam is not exposed to the homes' maintenance and operating costs. MHCs offer a stable and predictable cash flow, with occupancy of approximately 99%, minimal turnover and low annual capital requirements.

Killam's portfolio of apartments in Atlantic Canada and MHCs across Canada gives the Company a stable foundation to build on as it expands into the apartment market in Ontario.





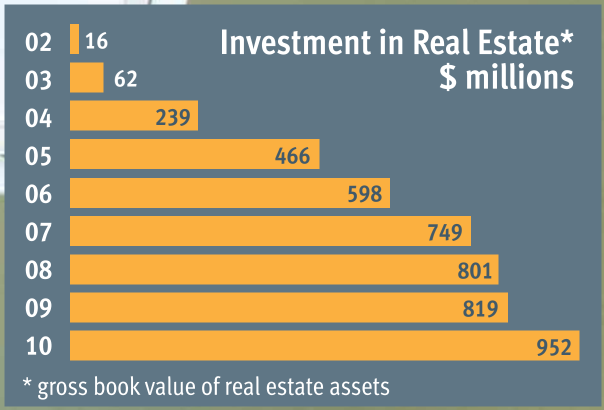
Strong Foundations

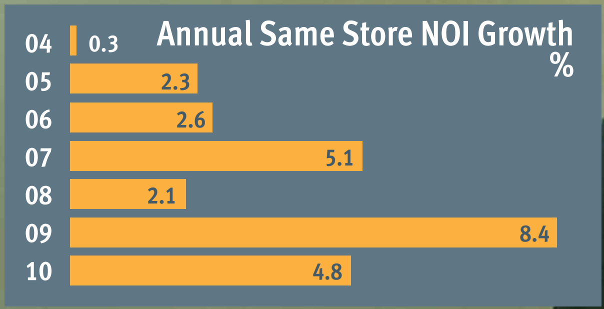
An Experienced Team | Killam has grown from a concept of consolidating apartments in Atlantic Canada and MHCs across Canada to an established company with $950 million in real estate assets located from Newfoundland to British Columbia. Killam now has over 400 employees focused on providing quality service and housing to apartment and MHC tenants.

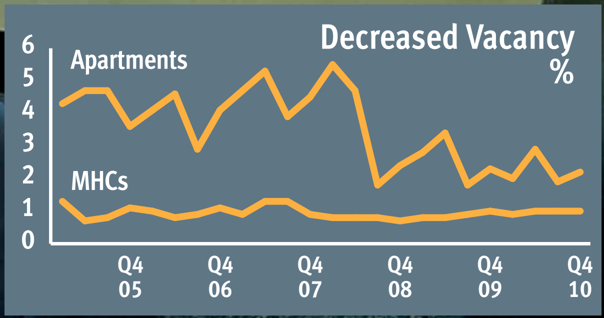
Killam's management has what it takes to lead the company to continued success. With extensive real estate

experience, an entrepreneurial spirit and a focus on customer service, Killam's management has a proven track record of growing the Company, and FFO per share, on an annual basis.

Killam's operating team has shown its strength by improving occupancy levels, increasing rents and consistently growing the properties' annual net operating income. Buying the right assets, managing properties professionally and providing superior service to tenants are three important criteria for long-term success in real estate. Killam has the team to make this happen.







Dale Noseworthy VP Investor Relations and Corporate Planning | **Jeremy Jackson** VP Marketing
Ruth Buckle-McIntosh VP Property Management | **Pamela Crowell** VP Property Management (MHC)
Robert Richardson EVP & CFO | **Philip Fraser** President & CEO
Keith Foster VP Finance | **Michael McLean** VP Development

Strong Foundations

Modern Properties | Killam takes pride in maintaining its properties and believes that investing capital is vital to improve long-term operating results. Well-maintained buildings and modernized units lead to strong occupancy and the ability to increase rents over time. In addition to investing capital to renovate units, Killam is focused on increasing its ownership of newer properties.

As of December 31, 2010, 15% of the Company's apartment portfolio was considered "new" (built within the last ten years). This compares with 7% for the Canadian apartment stock*. In Halifax, one of the most active markets for new rental construction in Canada, CMHC reports strong demand for new product, with

Charlotte Court | Charlottetown

Killam began development of Charlotte Court, its first apartment development project, in Charlottetown in September of 2010. The contract, awarded through the PEI Government, includes the construction of a 98-unit complex. Phase I of the complex will consist of 49 units, which are expected to be ready for occupancy during the second half of 2011. Phase II will consist of an additional 49 units, expected to be ready for occupancy in 2012. The total construction cost is expected to be approximately $11 million.

Forest Hills | Fredericton

A kitchen fire at Forest Hills in September 2009 resulted in extensive smoke and water damage to the 151 unit, nine-storey building. $7.4 million was invested to bring the property back on-line. This included total renovations to 51 units, enhancements to all remaining units and a complete facelift to all common areas.

Killam used the opportunity to upgrade the property, including adding a theatre room, new roof-top patio, social room and gym. Following nine months of renovations, Forest Hills was reopened in July 2010 and today enjoys full occupancy.

tenants willing to pay considerably more for modern features and increased amenities. Furthermore, capital requirements are significantly less for new buildings, resulting in a more stable and predictable cash flow.

In addition to buying newer, high-quality properties, Killam is planning to construct a small portfolio of new buildings. The first project began in 2010 and the construction of two other buildings is expected to start in 2011. Building new will give Killam control over the buildings' design and features, allowing for the development of energy efficient premium properties.

** Source: CMHC Canadian Housing Observer 2010*

Strong Foundations

Property Portfolio | Apartments

NOVA SCOTIA	Units	Year Built	Average Rent Dec-10	Average Rent Dec-09
HALIFAX				
1 Oak Street	146	1969	$817	$792
10-214 Harlington Crescent	60	1978	754	733
19 Plateau Crescent	81	1974	731	n/a
159 Radcliffe Drive	25	1995	932	902
175 - 211 Harlington Crescent	60	1978	750	730
21 Parkland Drive	98	2002	1,040	1,021
26 Alton Drive & 36 Kelly Street	80	1969	651	635
294 - 300 Main Street	58	1969	744	732
3 Veronica Drive	70	1983	817	803
31 Carrington Place	38	1998	1,152	1,116
3565 Connaught Avenue	19	1958	756	741
50 Barkton Lane	63	1991	791	771
5206 Tobin Street	47	1993	1,002	982
57 Westgrove Place	41	1969	727	721
59 Glenforest/21 Plateau	153	1978	715	701
6 Jamieson Street	24	1965	706	682
6087 South Street	9	1999	1,337	1,287
6101 South Street	30	2002	1,449	1,398
67-141 Harlington Crescent	60	1978	732	722
75 Knightsridge Drive	41	1986	822	811
85-127 Harlington Crescent	60	1978	744	729
9 Bruce Street	60	1974	571	544
9 Sybyl Court	22	1975	669	668
95 Knightsridge Drive	46	1984	894	882
Bedford Apartments	53	1987	690	709
Dillman Place	60	1970s	685	671
Garden Park Apartments	112	1980	845	845
Glenforest Apartments	80	1969	827	820
Glenbourne Gate	67	2000	891	n/a
Glenmoir Terrace	28	1972	683	672
Hillcrest Apartments	50	1980	754	734
Kent Street Properties	139	1950's	824	806
Lakefront Apartments	396	1954	684	683
Linden Lea & Pleasant Street	28	1950s	641	628
Maplehurst Apartments	268	1965	746	730
Maplehurst Houses	15	1965	964	942
Parker Street Apartments	239	1960-75	699	685
Parkridge Place	76	2002	940	914
Paxton Place	67	2000	892	n/a
Quinpool Court	198	1978	971	948
Quinpool Towers	233	1978	1,001	980
Shaunslieve Apartments	154	1978	790	778
Sheradon Place	82	1979	831	817
Spring Garden Terrace	201	1964	1,068	1,051
The James	108	2008	1,285	1,313
Victoria Gardens	198	1954	703	690
Waterview Place	82	1971	745	729
Halifax Total	**4,325**			
SYDNEY				
552 Kings Road	17	1974	$623	$596
Cabot House	88	1974	855	806
Moxham Court	51	1998	912	896
Sydney Total	**156**			
Nova Scotia Total	**4,481**			

NEW BRUNSWICK	Units	Year Built	Average Rent Dec-10	Average Rent Dec-09
FREDERICTON				
116 & 126 Wilsey Avenue	48	1975	$701	$679
127 & 157 Biggs Street	46	1985/92	754	720
260 Wetmore Road	38	1978	722	691
50,60 Greenfield & 190 Parkside	72	1977/86	656	640
75 Greensfield Drive	44	1980	626	609
969 Regent Street	62	1997/01	851	833
Carrington House	41	2002	886	885
Elroy Apartments	194	1973	786	758
Forest Hills	151	1968-1979	844	787
Princess Place	141	1968-1979	723	714
Southgate Apartments	47	2003	907	892
Venus Apartments	54	1965	852	809
Westwood Apartment	45	1975	626	606
Fredericton Total	**983**			
MONCTON				
100 Archibald Street	60	2003	$767	$760
101 Archibald Street	60	1993	724	713
108-118 Archibald Street	2	n/a	663	663
1111 Main Street	16	1957	1,476	1,476
276 - 350 Gauvin Road	84	1991-96	682	668
303 Normandie Street	70	1994	765	756
316 Acadie Avenue	48	1996	693	681
360 Acadie Avenue	60	1998	688	675
364 - 368 Gauvin Road	80	1995	709	697
Belmar Plaza	50	2005	880	n/a
Buckingham Place	55	1998	782	759
Cambridge Court	45	1994	828	808
Cambridge Place	63	1995	998	989
Cameron Street	81	1966/1967	632	616
Gordon/Bonaccord Street	41	1984/pre '50	647	633
Lakeview Estates	48	1980/81	636	626
Lorentz Apartments	101	1969	712	694
Lutz & Kendra Street	40	1950/75	687	681
Pine Glen Apartments	54	1974	683	675
Suffolk Street	80	2000	694	682
Moncton Total	**1,138**			
SAINT JOHN				
115 Woodhaven Drive	24	1977	580	565
37 Somerset Place	21	2007	$1,070	$1,070
53 Somerset Place	16	1973	659	644
Blue Rock Estates	60	2007	779	775
Carleton Towers	60	1968	656	642
Cedar Glen Apartments	204	1977	651	647
Ellerdale Apartments	154	1975	623	613
Fort Howe Apartments	153	1970	761	741
Parkwood Apartments	205	1947	624	611
Rocky Hill Apartments	42	2004	912	890
Sydney Arms	54	1961	709	696
The Anchorage	51	2003	916	882
Woodward Gardens	99	1962	753	739
Saint John Total	**1,143**			
MIRIMICHI				
Edward Court	96	1993	$641	$623
New Brunswick Total	**3,360**			

NEWFOUNDLAND	Units	Year Built	Average Rent	
			Dec-10	Dec-09
ST. JOHN'S				
Blackshire Court	69	1981	$726	$695
Cornwall Manor	31	1976	615	581
Forest Manor	65	1978	652	622
Freshwater Road Apartments	159	1972	663	620
Meadowland Apartments	105	1976	641	n/a
Mount Pleasant Manor	100	1976	623	589
Pleasantview Manor	36	1979	630	583
Torbay Road Apartments	84	1972	636	595
Village Manor	40	1978	648	615
St. John's Total	**689**			
GRAND FALLS				
Ridgeview Terrace Apartments	59	1975	516	481
Terrace Apartments	89	1970/90	731	705
Grand Falls Total	**148**			
Newfoundland Total	**837**			

PRINCE EDWARD ISLAND	Units	Year Built	Average Rent	
			Dec-10	Dec-09
CHARLOTTETOWN				
198 Spring Park Road	32	2006	$1,022	$998
27 Longworth Avenue	24	1983	647	636
319- 323 Shakespeare Drive	22	2004	830	810
505-525 University Ave	35	2003	1,091	1,037
Bridlewood Apartments	66	1998/99	826	811
Browns Court	52	1997	975	934
Burns/University	95	2003	956	944
Country Place	39	1998-02	843	828
DesBarres House	51	1978	573	558
Horton Park	69	1987	771	745
Kensington Court	105	1990	759	735
Queen Street	48	1978	632	616
Charlottetown Total	**638**			
SUMMERSIDE				
Nevada Court	48	1995	723	705
Prince Edward Island Total	**686**			

ONTARIO	Units	Year Built	Average Rent	
			Dec-10	Dec-09
CAMBRIDGE				
100 Eagle Street North	119	2008	$1,514	n/a
200 Eagle Street North	106	2004	1,338	n/a
Cambridge Total	**225**			
LONDON				
Richmond Hill Apartments	137	2009	$1,588	n/a
Ontario Total	**362**			
APARTMENT TOTAL	**9,726**		**$803**	**$758**

Strong Foundations

Property Portfolio | Manufactured Home Communities

ONTARIO	Sites	Acres	Average Rent Dec-10	Average Rent Dec-09
Bayview Estates	146	60	$238	$230
Cedardale (1)	204	25	154	150
Domaine le Village	74	36	271	265
Family Paradise (1)	214	50	153	152
Fergushill Estates	152	49	331	321
Golden Horseshoe	267	33	318	313
Green Haven Estates	230	45	299	299
Holiday Harbour (1)	143	15	141	128
Holiday Park (1)	289	35	139	138
Lakewood Estates	60	13	266	257
Lynnwood Gardens	64	54	297	289
Millcreek	73	35	382	364
Paradise Valley (1)	392	109	162	164
Parkside Estates	144	80	308	299
Pine Tree Village	70	38	353	344
Pinehurst Estates	82	16	228	217
Rockdale Ridge	69	96	245	238
Silver Creek Estates	237	80	308	300
Stanley Park	108	76	274	266
Sunny Creek Estates	160	53	192	185
The Village at Listowel	87	53	276	267
Westhill Estates	95	8	275	272
Wood Haven (1)	126	50	164	157
Ontario Total	**3,486**			

NOVA SCOTIA	Sites	Acres	Average Rent Dec-10	Average Rent Dec-09
Amherst	307	67	$162	$162
Birch Hill	217	73	222	198
Birchlee Estates	208	42	229	203
Cairdeil Estates	160	37	175	165
Cowan Place	56	50	187	163
Enfield Estates	56	10	200	200
Fairview Estates	131	131	316	301
Glen Aire Estates	266	130	194	186
Greenhill Estates	107	30	213	206
Heather Estates	217	72	204	190
Kent Drive	50	10	151	151
Maple Ridge Park	160	160	254	234
Mountainview Estates	353	168	216	205
Silver Birch Estates	65	16	198	181
Valley View Hills	195	50	190	172
Nova Scotia Total	**2,548**			

NEW BRUNSWICK	Sites	Acres	Average Rent Dec-10	Average Rent Dec-09
Burton	91	32	$217	$216
Camper's City (1)	224	61	162	152
Crown & Currie Estates	176	140	243	228
Kent & Bayview	148	123	150	140
Park P'Tiso	86	18	162	152
Pine Tree	826	260	260	239
Pine Valley	100	15	215	200
Riverview	109	72	220	210
Tamarack	419	75	228	227
White Frost Estates	211	51	209	194
New Brunswick Total	**2,390**			

ALBERTA	Sites	Acres	Average Rent Dec-10	Average Rent Dec-09
Lynwood Estates	110	18	$366	$346
Evergreen Village	73	11	359	359
Hillpark	136	18	332	329
Alberta Total	**319**			

SASKATCHEWAN	Sites	Acres	Average Rent Dec-10	Average Rent Dec-09
Sunset Estates	247	77	$312	$312
Saskatchewan Total	**247**			

NEWFOUNDLAND	Sites	Acres	Average Rent Dec-10	Average Rent Dec-09
Lakeview Court	86	13	$158	$158
Sunset Parkway	84	43	164	150
Newfoundland Total	**170**			

BRITISH COLUMBIA	Sites	Acres	Average Rent Dec-10	Average Rent Dec-09
The Poplars	130	36	$377	$364
British Columbia Total	**130**			

	Sites	Acres	Average Rent Dec-10	Average Rent Dec-09
MHC TOTAL	**9,290**		**$231**	**$221**

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

Management's Discussion and Analysis | Table of Contents

Overview of the Structure of the MD&A

The following management's discussion and analysis ("MD&A") has been prepared by management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the years ended December 31, 2010 and 2009. These documents, along with the Company's 2010 Annual Information Form are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at February 25, 2011.

Forward-looking Statements

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

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

Non-GAAP Measures

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

- Net operating income (NOI) is calculated by the Company as income from property operations plus income from home sales. The use of NOI when referring to a particular segment is calculated as revenue less costs for that segment.
- Funds from operations (FFO) are calculated by the Company as net income (loss) plus depreciation and amortization, stock compensation, non-cash debenture interest, less gains on debt retirement and future income tax (expense) recovery.
- Adjusted funds from operations (AFFO) is calculated by the Company as FFO less the industry standard of $450 per apartment unit for "maintenance" related capital costs. The MHC industry does not have a standard amount for "maintenance" related capital costs. Management has assumed $100 per MHC site.
- Same store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2010 and 2009 (95% of the portfolio).
- Capitalization Rate (Cap Rate) is the rate calculated by dividing the forecasted net operating income from a property by the property's purchase price.

Dollar amounts in thousands (except as noted)

Overview of Killam Properties

Killam Properties Inc., based in Halifax, Nova Scotia, is one of Canada's largest publicly traded residential landlords, owning and operating properties across the country. Killam was started in 2000 based on the recognition of an opportunity to create value through the consolidation of apartments in Atlantic Canada and manufactured home communities (MHCs) across Canada. During 2010, Killam acquired its first apartment properties in Ontario, a province management has targeted for apartment ownership. From the first property acquisition in 2002, management has grown the Company by investing $950 million in the Canadian rental market. As at December 31, 2010, Killam owned and operated 181 properties having a combined total of 19,016 units.

Killam operates in two distinct rental segments, the first being the ownership and management of multi-residential apartment buildings, representing approximately 77% of NOI from rental operations. The second segment is the ownership, management and expansion of MHCs, also referred to as land lease communities, or trailer parks.

Summary Financial Results

The following table presents a summary of Killam's operating performance for the year ended December 31, 2010 compared to 2009.

2010 Statistics	**Consolidated**	**Apartments**	**Apartments (same store)**	**MHC [1]**
Operating Revenue Growth ($)	$8,905	$8,096	$2,215	$809
Operating Revenue Growth (%)	8.5%	10.1%	2.8%	3.4%
NOI Growth ($)	$7,133	$6,211	$2,210	$753
NOI Growth (%)	11.4%	13.2%	4.8%	4.8%
FFO [2]	$32,093			
FFO Growth ($)	$5,754			
FFO Growth (%)	21.8%			
FFO/Share [2]	$0.74			
FFO/Share Increase (%)	1.4%			
Weighted Average Shares O/S	43,393,351			
Growth in Average Shares O/S	19.7%			
Debt to GBV	63.8%			
Interest Coverage Ratio [2]	2.0x			

(1) All of Killam's 55 MHC communities have been owned for equivalent periods in 2009 and 2010 and therefore the MHC segment is equivalent to the same store for MHCs.

(2) Excludes gain on debt retirements of $638 in 2009

Dollar amounts in thousands (except as noted)

Atlantic Canada's Dominant Apartment Landlord

Over the last eight years Killam has succeeded in consolidating a significant apartment portfolio in Canada and has achieved a 12% market share of the apartment units in Atlantic Canada's six largest cities. In the second quarter of 2010, Killam acquired its first apartment buildings in Ontario, the 137-unit Richmond Hill apartment in London, Ontario and 225 units at 100 and 200 Eagle Street North in Cambridge, Ontario. Killam plans to expand its portfolio in Ontario with a focus on newer, high quality buildings.

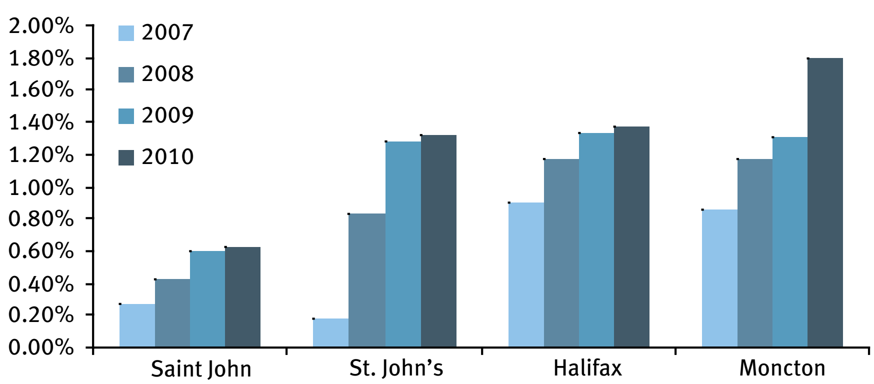
The following table summarizes Killam's apartment investment by market as at December 31, 2010:

	Units	Number of Properties	Market Share %	% of Apartment NOI
Halifax, NS	4,325	47	10.8%	49.2%
Moncton, NB	1,138	22	11.4%	10.1%
Saint John, NB	1,143	13	13.3%	9.5%
Fredericton, NB	983	13	13.9%	9.0%
Charlottetown, PE	638	12	15.8%	7.1%
St. John's, NL	689	9	19.8%	5.6%
Cambridge, ON	225	2	4.7%	2.8%
London, ON	137	1	0.3%	2.2%
Other	448	7	N/A	4.5%
Total	9,726	126		

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

Atlantic Canada's stable economy continues to draw people to the region. Statistics Canada reported in December 2009 that during the third quarter of 2009, Newfoundland, New Brunswick and Nova Scotia all achieved the strongest population growth since 1982, 1991 and 1998, respectively. Population growth in Killam's core markets in Atlantic Canada continued in 2010, with new residents coming from rural areas and international migration.

% Population Growth



Source: Statistics Canada

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

Consolidation of Apartments

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

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

During 2008 and 2009 Cap Rates in Atlantic Canada remained relatively stable, based on the limited transactions that were completed and general market sentiment. Transaction activity increased in 2010, with Cap Rates compressing further. This trend was seen throughout Canada. Low bond yields, access to CMHC insured financing and demand for multi-family residential properties have all contributed to these low Cap Rates. The Halifax market appears to be trading at rates in line with many of Canada's larger cities. Cap Rates in other Atlantic Canadian cities are generally marginally higher than in Halifax.

A Solid Infrastructure

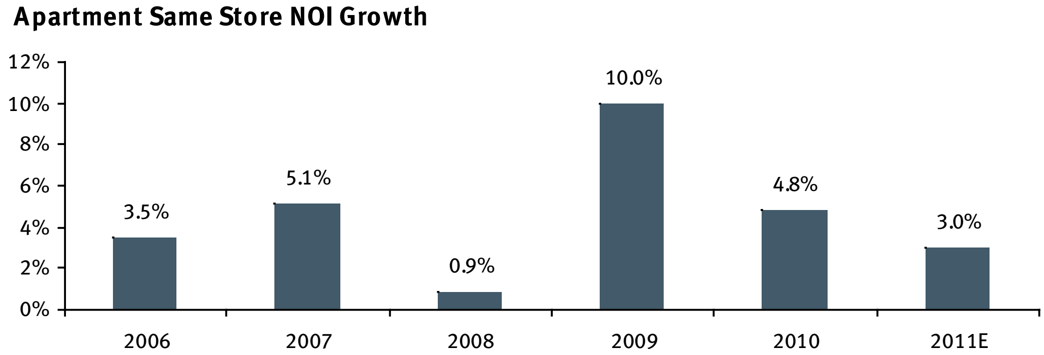
Killam's operational platform can support a larger and more geographically diverse portfolio. In addition to a head office in Halifax, Killam has regional offices in Saint John, Fredericton, Moncton and Charlottetown. Property management is handled internally for all apartment locations, with the exception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

Management continues to see opportunities to acquire properties in Atlantic Canada as well as expanding ownership in the Ontario market with apartment acquisitions. During 2010, 13% of Killam's consolidated NOI from rental operations was generated outside Atlantic Canada. Management expects to increase this percentage by acquiring apartments in other markets, with a focus in Ontario, especially Ottawa, the Greater Toronto Area and the Kitchener/Waterloo area. Further comments on plans to increase investment outside Atlantic Canada are provided in the strategy section.

Increasing the Value of the Apartment Portfolio through NOI Growth

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

A key measure of Killam's success is the ability to realize improved profitability from same store NOI growth. The same store NOI growth for apartments over the last five years, along with management's expectation for 2011, are shown below. The Company has been successful in generating NOI growth over the last five years based on a combination of increased revenue and cost management. The average same store NOI growth over the last five years has been 4.9%.



Limited Exposure to Rent Control

Killam is generally able to move rents to market on an annual basis. PEI is the one province in Atlantic Canada with rent control, and this represents only 7.1% of Killam's apartment units. The Company analyzes each property on a regular basis, considering its general market environment and vacancy, to evaluate the ability to increase rents for both existing tenants and on turnover. The ability to increase revenue is important in generating NOI growth. Over the last three years, Killam has increased rents by an average of 2.4%, 3.3% and 2.2% in 2008, 2009 and 2010, respectively. Management expects to increase same store apartment revenue an average of approximately 3% in 2011. The majority of this increase is expected to come from higher rents, as occupancy continues to be approximately 98%. As noted, occupancy plays a key role in determining Killam's ability to raise rents.

Managing Costs

Managing costs is another key component in generating NOI growth. Management is able to control approximately 40% of operating expenses, including labour costs and repairs and maintenance. The remainder of operating costs including utilities and property taxes are less controllable as the cost of the commodity or service is generally less flexible, although Killam is diligent to control consumption of water, electricity and fuel. Energy costs represented approximately 31% of Killam's apartment operating costs in 2010. Killam's apartments are heated with a combination of oil (31%), natural gas (33%) and electricity (36%). Heating costs for electrically heated units are generally paid by the tenant directly. Volatile oil and natural gas prices have an impact on Killam's ability to control these expenses. To mitigate this volatility the Company is active in energy conservation initiatives and in monitoring its energy usage. Killam does, at times, use hedging strategies to decrease price uncertainty.

Maximizing the Value of Excess Land with Development

Killam's apartment portfolio includes approximately 22 acres of excess land available for future expansion. Management plans to maximize the value of excess land through the development of new rental units, including currently identified development opportunities in Halifax, Fredericton and St. John's. These opportunities are moving through the planning process and management expects to begin construction beside Shaunslieve Apartments, in Halifax, during the second quarter of 2011.

Killam announced the start of development of Charlotte Court in Charlottetown in September of 2010. The contract, awarded through the PEI Government, includes the construction of a 98-unit complex. Phase I of the complex will consist of 49 units, which are expected to be ready for occupancy in July 2011. Phase II will consist of an additional 49 units, expected to be ready for occupancy in June 2012. The total construction cost is estimated to be $11 million, with an expected all cash return, or capitalization rate, of between 6.5% and 7%.

Demand for newly constructed rental apartments is strong in Atlantic Canada, with high occupancy rates and above average rents. Killam's apartment portfolio includes buildings of newer construction, (approximately 13% of Killam's apartment units were built in 2000 or later), which have performed well with high occupancy and lower than average capital requirements. Management believes that being involved in the development of new rental properties will enable the Company to increase its percentage of newer product at more advantageous pricing versus relying solely on the acquisition of new product.

Dollar amounts in thousands (except as noted)

Manufactured Home Communities Offer Diversification and Stability

In addition to acquiring apartments, Killam has also focused on building a portfolio of MHCs. Killam owns the largest portfolio of MHCs of any publicly traded company and is the second largest owner of MHCs in Canada. Killam acquired its first community in 2003, and as at December 31, 2010 owned 55 communities across seven provinces, with a total of 9,290 rentable sites.

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

	Sites	Number of Communities	% of MHC NOI
Ontario	3,486	23	39.6%
Nova Scotia	2,548	15	23.0%
New Brunswick	2,390	10	24.9%
Alberta	319	3	5.0%
Saskatchewan	247	1	3.3%
Newfoundland	170	2	1.3%
British Columbia	130	1	2.9%
Total	9,290	55	

How the MHC Business Works

With MHCs, Killam owns the land and infrastructure supporting each community and leases the lots to the tenants, who own their own homes and pay Killam a monthly rent. In addition to lot rent the tenant may have a mortgage payment to a financial institution for their home. The average rent in Killam's MHC portfolio is $231/month, which offers great value and affordability to the tenant. The home owner is responsible for property taxes based on the assessed value of their home and Killam is responsible for the property tax on the land.

MHCs require less recurring capital investment and deliver a more predictable and stable cash flow than apartments. MHC home owners are responsible for the repair, maintenance and operating costs for their homes, which removes significant variable costs that are typically borne by Killam for apartments. The operating profit margin in Killam's MHC business averaged 65.1% over the last two years, compared to 59.4% for apartments.

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

Consolidation of MHCs

Management identified an opportunity to consolidate the MHC market at the time that Killam was founded, recognizing that it was an overlooked asset class in Canada. Traditionally these assets had been held by individuals with very little consolidation activity in the market, resulting in higher cap rates and the ability to generate attractive returns. During the period from 2005 to 2007, following an increase in interest and activity in this asset class from both private and public investment, there was Cap Rate compression in the MHC sector. During 2008 and early 2009 management noted an increase in the MHC Cap Rates of approximately 100-150 basis points. The Cap Rates range widely for this asset class, impacted by location and quality, but have typically traded at Cap Rates between 6% and 9% over the past few years. There was limited individual community acquisition activity in the MHC sector during 2010.

Increasing the Value of the MHC Portfolio Through NOI Growth

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

Management measures success in improving profitability through same store NOI growth. MHCs have little exposure to energy costs, resulting in stable operating costs, even in an environment of volatile natural gas and oil prices. Same store NOI growth for MHCs over the last five years, along with the expectation for 2011, is shown below.

MHC Same Store NOI Growth

MHCs fall under the same provincial regulations as apartments. Ontario and British Columbia are the only two provinces where Killam owns MHCs that have rent control. The allowable rent increase for renewing MHC tenants in Ontario and British Columbia were the same as for apartments in 2010, at 2.1% and 3.2%, respectively. The allowable rent increase for renewing MHC tenants in Ontario and British Columbia are the same as for apartments in 2011, at 0.7% and 2.3%, respectively. Higher rent increases are allowed for new tenants entering the communities.

During the fourth quarter of 2010, the government of Nova Scotia passed legislation that is expected to lead to a rental increase formula on MHCs starting in 2011. The formula to determine the annual increase has not yet been disclosed. In all other provinces where Killam owns MHCs, management can increase rents to market.

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

Dollar amounts in thousands (except as noted)

Expansion Opportunities for MHCs

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

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

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

Over the last five years Killam has developed an additional 241 sites in eight communities and has sold 146 homes to date in those expansions. Killam expects to develop new sites on its existing MHC properties as demand for new homes supports expansion costs.

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

Home Sales

Killam acts as a retailer for home manufacturers to supply homes to Killam's communities, both to existing and expanded sites. The houses are built in a manufacturing facility and delivered by road to the sites. Homes are available in a variety of sizes and layouts and typically sell for between $90,000 and $185,000, with the higher sales prices usually in Ontario and Western Canada. Management expects to net $12,000 to $20,000 profit per home sale, which, as noted earlier, offsets a portion of the capital investment to expand the new sites. Annual new home sale levels are dependent on Killam's site expansion program and the overall economic environment. Management continually monitors sales activities in each market and based on current information anticipates 40 to 50 homes sales in 2011.

Strategy and Objectives for Growth

Killam's business objectives are to:

- **own multi-family residential real estate properties and manufactured home communities,**
- **generate annual increases in FFO per share, and**
- **increase the underlying net asset value of its properties.**

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

Apartment Strategy and Objectives

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

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

Consolidation in the Canadian Apartment Market

Management plans to continue to grow the apartment portfolio through accretive acquisitions, with an increased focus in Ontario, with a specific interest in Ottawa, the Greater Toronto Area and the South Western Ontario area. Killam's acquisition activity has varied from a high of $200 million in 2005 to a low of $3.0 million in 2009. The investment in both 2008 and 2009 was less than previous years in response to market uncertainty. During 2010, Killam completed $115.1 million in acquisitions, including $79.7 million for the purchase of three newly constructed buildings in Ontario. Killam's acquisition goal for 2011 is $100 to $150 million.

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

During 2010 Killam signed a partnership agreement with Kuwait Financial House ("KFH") with the objective of acquiring multi-family residential properties in Canada. The partners may contribute equity up to $100 million, with 75% of the equity from KFH and 25% from Killam. Killam will manage all properties purchased in the partnership. As at December 31, 2010 the partnership did not hold any properties. Some of Killam's future acquisitions may be made through the partnership with KFH.

Geographic Diversification

Geographic diversification in the apartment segment is a priority for Killam. In 2009, 100% of Killam's apartment NOI was generated in Atlantic Canada. In 2010, with the purchases in Ontario, this decreased slightly to 95%. Management would like Atlantic Canada to represent 50% of the apartment NOI as the asset base is expanded with acquisitions in other areas of the country.

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

Growth in Same Store NOI

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

MHC Strategy and Objectives

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

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

Consolidation

Management may grow the portfolio through acquisitions of communities of 100 sites or larger. With growing populations and the need for affordable housing alternatives, Killam believes there are long-term benefits from growing the business. The consolidation opportunities for the MHC segment are more limited than the apartment segment, as many of the investment grade MHCs have already been consolidated, or are not available. Growth in this area will be dependent on the availability of properties for sale.

Expand Killam's Current Portfolio

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

Maximize Earnings and Cash Flow Potential on Current Portfolio

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

Setting and Meeting Targets

Key Performance Drivers

Key Objectives	Key Performance Drivers	Key Performance Indicators
Consolidation	**Canadian Real Estate Market** – Killam's ability to purchase accretive acquisitions will depend on the ability to source properties at accretive prices. **Access to Capital Markets** – Acquisition may be dependent on the ability to raise equity in the capital markets. **Access to Debt Markets** – Killam typically finances 65% to 75% of each acquisition with mortgage debt. The inability to access debt at attractive rates would impact Killam's ability to complete accretive acquisitions.	Portfolio Growth Asset Growth Debt to Gross Book Value Ratio Average Cost of Debt
Geographic Diversification	**Ability to Source Product** – Killam will generally rely on independent brokers to source apartments outside Atlantic Canada. The ability to enter markets outside Atlantic Canada will depend on relationships with brokers and sellers, and the ability to acquire at accretive prices.	NOI by Region
Grow Same Store NOI (Apartments)	**Supply and Demand Balance** – A change in balance between supply and demand in Killam's markets may impact vacancy levels. **Economic Environment** – A stronger economy should increase investment and wages, allowing for more opportunity to implement rental increases. Conversely, a weak economy may lead to rental rate sensitivity and less opportunity to raise rents. **Utility and Property Tax Costs** – These costs represent approximately 60% of apartment costs. Killam can control the consumption of energy but not the pricing. Significant changes in energy prices would impact operating costs and NOI. Property taxes are controlled by the municipalities in which the Company operates.	Occupancy – apartments Same Store NOI – apartments NOI Margins – apartments Rental Increases FFO Growth
Growth in Same Store NOI (MHCs)	**Changes in Housing Prices** – Significant changes to residential real estate prices could impact the demand for homes in MHCs. The affordability of manufactured homes is one of the primary demand drivers. **Provincial Legislation** – Rental increases in some provinces are regulated provincially, dictating the extent to which rents can be raised.	Same Store NOI – MHC NOI Margins – MHC Rental Increases FFO Growth
Maximize Value of Excess Land	**Changes in Housing Prices** – Significant changes to residential real estate prices could impact the demand for homes in MHCs. The affordability of manufactured homes is another primary demand driver. **Municipal Approvals** – Killam's apartment developments and MHC expansions are dependant on receiving appropriate municipal zoning and other approvals.	Home sales Land sales FFO Growth

Dollar amounts in thousands (except as noted)

Performance Compared to 2010 Goals and Objectives

In Killam's 2009 Annual Report management stated its 2010 goals and objectives. A review of Killam's performance in meeting these goals and objectives is included below.

2010 Goals and Objectives	Performance to December 31, 2010	Comments
Maintain debt levels between 65% to 70% of the gross book value of assets (GBV).	As at December 31, 2010, Killam's total debt to GBV ratio was 63.8%.	Leverage better than target range.
Grow same store NOI by 3% to 4%. • Goal was revised to 4-6% after the second quarter based on strong results in the first half of the year.	Killam achieved consolidated same store NOI growth of 4.8% for 2010.	Target achieved. Killam's same store NOI growth has been generated by rental increases, increased occupancy and decreased fuel expense.
Complete 40 to 50 manufactured home sales.	Killam completed 45 home sales and home sale placements during 2010.	Target achieved.
Complete $100 million to $150 million in acquisitions.	Killam completed $115.1 million of acquisitions in 2010.	Target achieved.

Goals and Objectives for 2011

2011 Goals and Objectives	Strategy for Achieving Goals
Grow Same Store NOI by 2% to 4%.	Implement rent increases averaging 3% for the year, maintain occupancy levels and manage expenses.
Complete $100 million to $150 million in acquisitions.	Focused in Ontario and Atlantic Canada.
Maintain debt levels between 62% and 67% of GBV of assets. (1)	Manage the mortgage portfolio and new acquisition leverage to maintain the targeted debt range.
Complete 40 to 50 new home sales.	Focus on sales in Ontario, Saskatchewan and newly expanded sites in Nova Scotia.

(1) With the adoption of IFRS in 2011, GBV will be defined by Killam as total assets per the financial statements plus deferred financing costs reallocated less the cumulative fair value adjustment of investment properties over their original cost plus capital expenditures.

Ability to Deliver Results

Financial Resources to Fund Growth

Cash flow from operating activities is expected to meet Killam's ongoing operating requirements. However, Killam's growth plans require a supply of new capital sources. Capital sources are defined as mortgage debt, vendor mortgages, debenture debt and share capital equity. As at December 31, 2010, Killam had $16.1 million in cash on hand. Based on an assumed 65% mortgage debt on acquisitions this is expected to support acquisitions and/or development of approximately $46 million.

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

Acquisition Opportunities

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

Dollar amounts in thousands (except as noted)

Review of Consolidated Operations

For the years ended December 31,	**2010**	2009	% Change
Total operating revenue	**$113,279**	$104,374	8.5%
Property operating expenses	**43,709**	41,768	4.6%
Income from property operations	**$69,570**	$62,606	11.1%
Operating expense percentage	**38.6%**	40.0%	↓140 bps
Income from home sales	**$403**	$234	72.2%
Net operating income	**$69,973**	$62,840	11.4%
FFO	**$32,093**	$26,339	21.8%
FFO per share	**$0.74**	$0.73	1.4 %

The following discussion relates to the consolidated operating results. Further detail on operating and same store results for Killam's apartment and MHC businesses is provided in the "Segment and Same Store Review" on page 38.

Total Operating Revenue and Portfolio Occupancy

Total operating revenue increased 8.5% for the year ended December 31, 2010 compared to 2009 due to increased rents and the completion of acquisitions in the second and fourth quarters of 2010. Total operating revenue in the year ended December 31, 2010 includes laundry and parking revenues of $1.5 million and $0.5 million, respectively (2009 – $1.5 million and $0.4 million).

The annualized operating revenue, including laundry and parking revenue, of the properties the Company owned as at December 31, 2010, is approximately $119.8 million based on current rents less a 3% vacancy allowance. Killam, like all real estate rental operators, is sensitive to vacancy rates, however, Killam believes its portfolio is quite defensive given its diversification in terms of multiple locations and two distinct asset types. Based on current rents, a 1% change in vacancy rates would impact the annualized rental revenue by $1.2 million.

Canada has historically experienced stable multi-residential occupancy rates. Killam generally outperformed the market in 2010, posting lower vacancy in October 2010 than the CMHC averages reported for the same period in their Fall Rental Market Report in Halifax, Moncton, Saint John, St. John's, Charlottetown and Cambridge. Vacancy rates for the apartment portfolio as at December 31, 2010 was 2.2%. MHC vacancy remains low at approximately 1.2%.

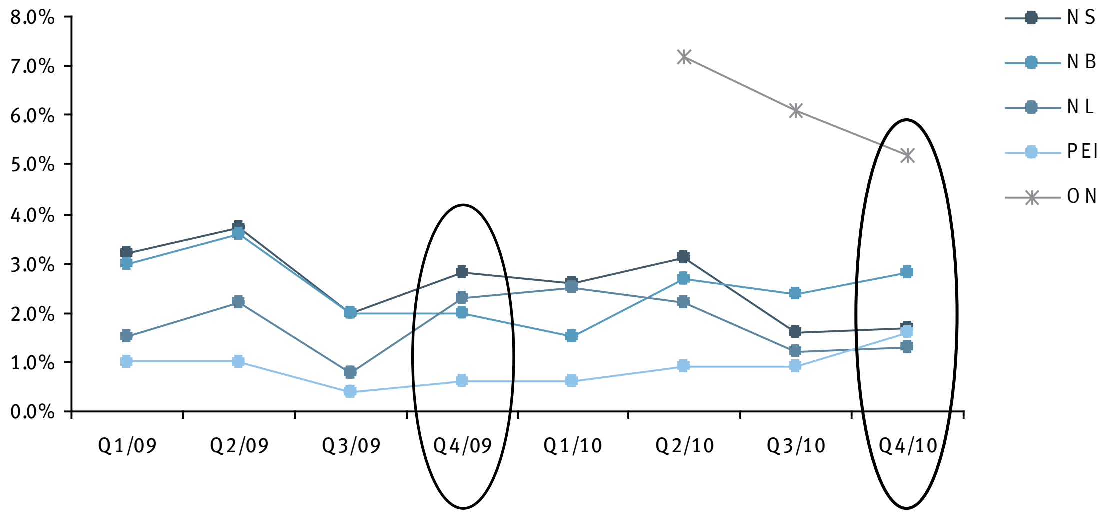
Management believes that the continued strong occupancy is attributable to the public awareness of Killam as a quality landlord, the location and value of the Company's properties and Killam's capital investment program.

Vacancy rates displayed below represent all units available for rent at the end of the relevant quarter. At December 31, 2010, Killam had no apartment units excluded from the vacancy statistics. Excluded from the MHC vacancy statistics are 144 MHC sites that have not been previously rented, including some recently expanded sites, and 376 transient sites in Killam's seasonal resort portfolio.

Dollar amounts in thousands (except as noted)

Vacancy

Average Vacancy – Available Units
(by quarter Q1/09 – Q4/10)



	2010					2009				
	Q1	**Q2**	**Q3**	**Q4**	**Avg.**	Q1	Q2	Q3	Q4	Avg.
Apartments										
Nova Scotia (NS)	**2.6%**	**3.1%**	**1.6%**	**1.7%**	**2.3%**	3.2%	3.7%	2.0%	2.8%	2.9%
New Brunswick (NB)	**1.5%**	**2.7%**	**2.4%**	**2.8%**	**2.3%**	3.0%	3.6%	2.0%	2.0%	2.7%
Newfoundland (NL)	**2.5%**	**2.2%**	**1.2%**	**1.3%**	**1.8%**	1.5%	2.2%	0.8%	2.3%	1.7%
Prince Edward Island (PEI)	**0.6%**	**0.9%**	**0.9%**	**1.6%**	**1.0%**	1.0%	1.0%	0.4%	0.6%	0.8%
Ontario (ON)	**N/A**	**7.2%**	**6.1%**	**5.2%**	**N/A**	N/A	N/A	N/A	N/A	N/A
Apartment average	**2.0%**	**2.9%**	**1.9%**	**2.2%**	**2.2%**	2.8%	3.4%	1.8%	2.3%	2.6%
MHCs	**0.9%**	**1.0%**	**1.0%**	**1.2%**	**1.0%**	0.8%	0.8%	0.9%	1.0%	0.9%
Portfolio Average	**1.5%**	**2.0%**	**1.5%**	**1.7%**	**1.7%**	1.8%	2.1%	1.3%	1.6%	1.7%

As highlighted in the above chart, Killam's average apartment vacancy rate for 2010 was 2.2% compared to 2.6% in 2009. This decrease was primarily achieved by improved occupancy in Halifax, Killam's largest market.

Killam's vacancy rates in Nova Scotia, which represents 49.2% of the Company's apartment NOI at December 31, 2010, remained at an historic low level of 1.7% at December 31, 2010. This represents a 110 basis point improvement from the fourth quarter of 2009. Vacancy averaged 2.3% for the 2010 year, 60 basis points better than the 2009 average. The Halifax rental market remains especially healthy with strong demand for rental accommodations.

In New Brunswick, Saint John maintained its low vacancy rate of 1.5% (2009 – 1.6%). Fredericton's vacancy rate increased to 4.1% at December 31, 2010 (2.3% in 2009) as the 151-unit Forest Hill property came back on line after fire renovations. Moncton's vacancy rate increased to 3.4% at December 31, 2010 (2009 – 2.2%). The provincial annual average of 2.3% was a decrease of 40 basis points over 2009.

Newfoundland has performed well over the last two years maintaining low vacancy levels averaging 1.8% and 1.7% during 2010 and 2009, respectively.

Vacancy levels in PEI increased by 100 basis points to 1.6% at December 31, 2010, representing 11 units of the 686 unit PEI portfolio. The PEI market remains strong.

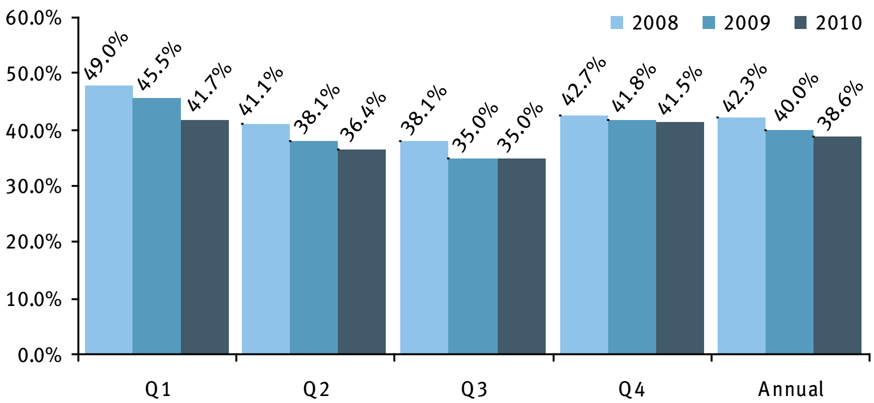
Dollar amounts in thousands (except as noted)

Killam's vacancy rate in Ontario is higher than the Company's average, at 5.2%. This is a 200 basis point improvement from the vacancy rate at June 30, 2010. It is typical for new properties to experience short-term increases in vacancy as Killam takes over management and implements its operating programs. Leasing activity has been strong at the three Ontario properties and occupancy is expected to stabilize over the next few quarters.

Strong occupancy has continued subsequent to year-end with apartment vacancy at 2.6% for January and February 2011, compared to 2.6% and 2.4% for the same months of 2010.

Property Operating Expenses

Total Property Operating Expense Percentage



Killam's property operating expenses as a percentage of operating revenue for 2010 decreased to 38.6% from 40.0% in 2009. This decrease was attributable to a combination of reduced fuel expense, stable operating expenses and rental increases. Same store total property expenses increased 0.1% to $41.4 million during the year ended December 31, 2010 compared to 2009.

Consolidated Same Store Results[1]

For the years ended December 31,		**2010**		2009	% Change
Rental revenue		**$105,790**		$102,818	2.9%
Other revenue		**523**		471	11.0%
Total revenue		**106,313**		103,289	2.9%
Property expenses					
Operating expenses	***17.3%***	**18,378**	*17.4%*	18,006	2.1%
Utilities	***11.9%***	**12,674**	*13.0%*	13,438	(5.7)%
Property taxes	***9.7%***	**10,336**	*9.6%*	9,883	4.6%
Total property expenses	***38.9%***	**41,388**	*40.0%*	41,327	0.1%
Net operating income		**$64,925**		$61,962	4.8%

Same store property NOI showed strong positive growth of 4.8% during 2010, with NOI of $64.9 million, compared to $62.0 million in 2009. Rental revenues increased 2.9% year-over-year due primarily to rental increases. Total property operating expenses were flat year-over-year. Utilities were down 5.7%, due primarily to hedging settlement costs in 2009. This decrease was offset by a 4.6% increase in property taxes and a modest increase in operating expenses of 2.1%. Please see detailed segmented same store analysis on pages 39 and 41.

1. Same store results reflect the operations for 171 stabilized properties that Killam has owned for equivalent periods in 2010 and 2009. The same store analysis includes 18,103 units, or 95% of Killam's portfolio. Home sales are also excluded from this analysis.

Dollar amounts in thousands (except as noted)

Segment & Same Store Review

Apartments

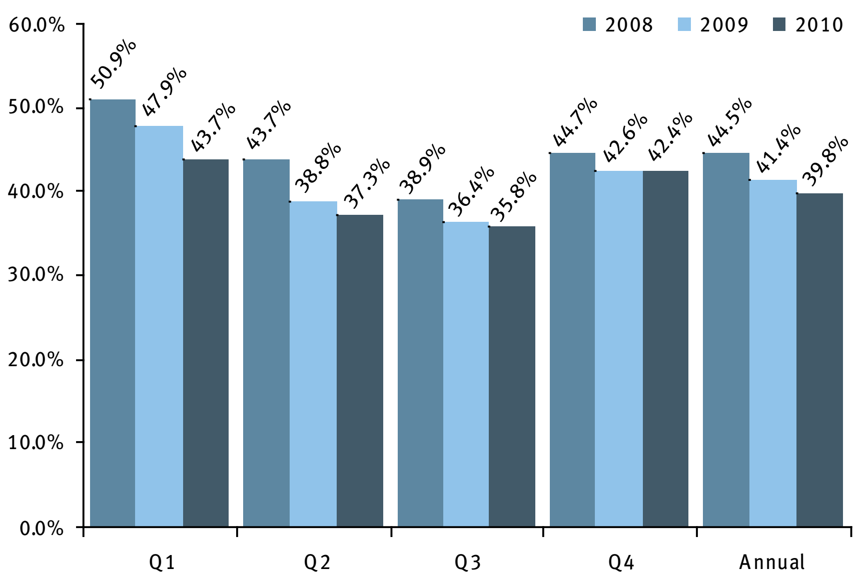
For the years ended December 31,		**2010**		2009	% Change
Rental revenue		**$88,114**		$80,056	10.1%
Other revenue		**258**		220	17.3%
Total revenue		**88,372**		80,276	10.1%
Property expenses					
Operating expenses	***16.1%***	**14,257**	*16.2%*	13,019	9.5%
Utilities	***12.3%***	**10,838**	*14.2%*	11,388	(4.8)%
Property taxes	***11.4%***	**10,036**	*11.0%*	8,839	13.5%
Total property expenses	***39.8%***	**35,131**	*41.4%*	33,246	5.7%
Net operating income		**$53,241**		$47,030	13.2%
Weighted average rent per unit		**$803**		$758	5.9%

Killam's apartment business accounted for 76.5% of income from property operations for the year ended December 31, 2010, compared to 75.1% in 2009.

The apartment portfolio generated total revenue growth of 10.1% in 2010, compared to 2009. The increase was due to the completion of acquisitions in the second and fourth quarters of 2010 and increased rents. Average rents increased 2.2% for same store properties.

Total property operating expenses decreased in 2010 as a percentage of total operating revenue to 39.8% from 41.4% in 2009. The 160 basis point decrease is attributable to the denominator effect of increased rents and acquisitions with higher margins. A more detailed analysis of costs is presented in the same store results which follow.

Apartment Operating Expense Percentage



Dollar amounts in thousands (except as noted)

Same Store Results – Apartments

For the years ended December 31,		**2010**		2009	% Change
Rental revenue		**$81,177**		$78,975	2.8%
Other revenue		**229**		216	6.0%
Total revenue		**81,406**		79,191	2.8%
Property expenses					
Operating expenses	***16.4%***	**13,325**	*16.1%*	12,767	4.4%
Utilities	***12.7%***	**10,334**	*14.2%*	11,273	(8.3)%
Property taxes	***11.2%***	**9,151**	*11.1%*	8,765	4.4%
Total property expenses	***40.3%***	**32,810**	*41.4%*	32,805	—%
Net operating income		**$48,596**		$46,386	4.8%
Weighted average rent per unit		**$775**		$758	2.2%

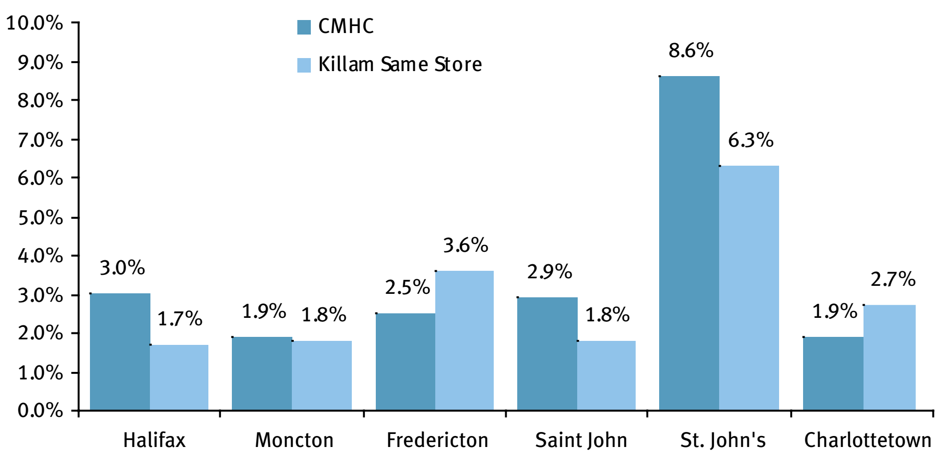
Killam's same store apartment portfolio experienced NOI growth of 4.8% as total revenues were up 2.8% and expenses were flat on a dollar for dollar basis (fell to 40.3% of total operating revenues from 41.4% in 2009).

Revenue

Revenue growth of 2.8% year-over-year was primarily attributable to increased average rents of 2.2%. Demand for apartments remains strong in Atlantic Canada.

The following chart highlights Killam's rent increases (from December 2009 to December 2010) compared to the average rent increases for each market as surveyed by CMHC (from October 2009 to October 2010). CMHC rental increases are based on the same properties being surveyed for both years.

Rental Increases



Rental increases were lower than the market increase in Halifax, Saint John and St. John's. With continued strong occupancy in these markets, Killam expects to realize at or above market rental increases in 2011. Killam expects to be able to achieve rental increases on its same store apartment portfolio of approximately 2% to 4% for 2011.

Dollar amounts in thousands (except as noted)

Expenses

Killam's apartment same store utility costs decreased 8.3% during 2010, compared to 2009. Included in utility costs are electricity, natural gas and heating oil costs.

For the years ended December 31,	**2010**	2009	% Change
Natural gas and oil	**$4,259**	$ 5,005	(14.9)%
Electricity	**3,551**	3,685	(3.6)%
Water	**2,476**	2,515	(1.6)%
Other	**48**	68	(29.4)%
Total utilities	**$10,334**	$11,273	(8.3)%

Natural gas and oil costs represented 41% of total utility costs in 2010, and 13% of total property operating expenses. Killam's apartments are heated with a combination of electricity (36%), natural gas (33%) and heating oil (31%). Apartment units heated with electricity are generally paid directly by the tenant, with Killam responsible for common area costs. Heating costs are included in rents for the units heated with natural gas and heating oil.

Killam's cost of natural gas increased by approximately 8% during 2010. The weighted average costs during 2010 in Nova Scotia and New Brunswick were $8.39/Gj and $16.28/Gj respectively, compared to $8.94 and $12.94 during 2009. Natural gas is relatively new to Atlantic Canada and the price differences between provinces reflect different delivery rate structures. The delivery rates in New Brunswick are based on market conditions and are structured to translate into a set percentage savings when compared to heating oil costs. In Nova Scotia, costs are based on a cost recovery model, a more common approach to rate setting.

The cost of natural gas in 2010 converts to an equivalent oil cost of $0.32 per litre in Nova Scotia and $0.62 per litre in New Brunswick. This compares with Killam's weighted average cost per litre of oil of $0.62 in 2010, a 19% increase from the cost of oil in 2009.

In 2009 Killam hedged approximately 35% of oil and 55% of natural gas exposure with fixed rate forward contracts. The settlement of these contracts increased the total cost of utilities by $1.0 million in 2009. Approximately 20% of the budgeted oil and 10% of budgeted natural gas consumption levels in the first quarter of 2010 were fixed with swap contracts. The settlement of these contracts had only a marginal impact on total utility costs in 2010. The Company has no other swap contracts outstanding. Killam may revisit the use of swaps to manage its exposure to volatile commodity markets.

Other than heating costs, Killam decreased electricity and water charges in 2010. Killam continues to maximize its energy efficiency programs to lessen its carbon footprint and mitigate pressure from rising utility prices. During 2009 solar panels were installed at 59 Glenforest Drive and upgrades were made to the existing solar panels at Quinpool Towers. In 2010 additional solar panels have been installed at the 59 Glenforest property and at Killam's One Oak and Parker Street properties. In addition, Killam has installed approximately 7,000 water saving kits in its apartments and has installed real-time water monitoring technology in a number of larger buildings in 2010 to closely track consumption in order to identify and correct leaks.

Property tax expense increased in 2010 due to higher assessments at many properties. The average assessment increase was approximately 7.5%.

Dollar amounts in thousands (except as noted)

MHCs

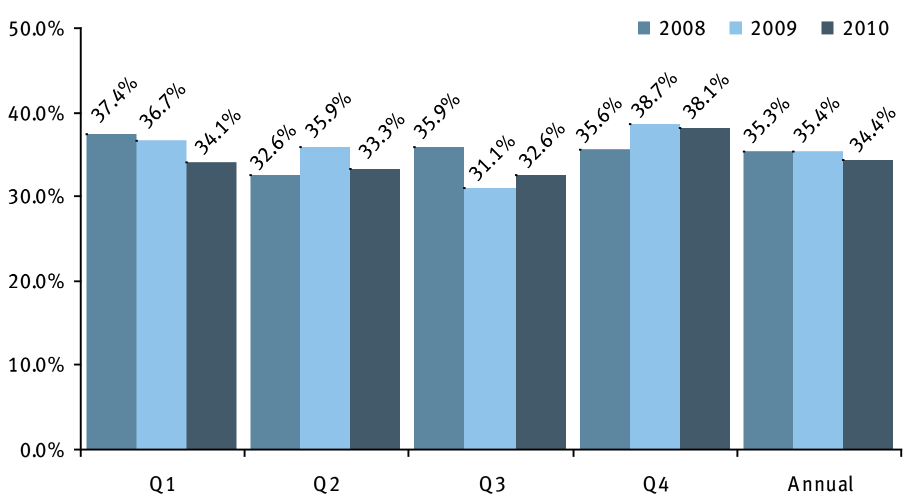
For the years ended December 31,		**2010**		2009	% Change
Rental revenue		**$24,613**		$23,843	3.2%
Other revenue		**294**		255	15.3%
Total revenue		**24,907**		24,098	3.4%
Property expenses					
Operating expenses	***20.3%***	**5,053**	*21.8%*	5,239	(3.5)%
Utilities	***9.4%***	**2,340**	*9.0%*	2,165	8.1%
Property taxes	***4.7%***	**1,185**	*4.6%*	1,118	6.0%
Total property expenses	***34.4%***	**8,578**	*35.4%*	8,522	0.7%
Net operating income		**$16,329**		$15,576	4.8%
Weighted average rent per unit		**$231**		$221	4.5%

Killam's MHC business accounted for 23.5% of earnings from property operations during 2010 (24.9% in 2009). Revenue from the MHCs increased by $0.8 million, or 3.4%, compared to 2009, due primarily to rental increases.

Total property expenses increased 0.7% in 2010 compared to 2009, however, they decreased 100 basis points as a percentage of revenue (34.4% compared to 35.4%). Operating expenses are down 3.5% as a reduction in waste water pumping and other repair and maintenance expenses reduced operating expenses by $0.2 million. MHCs experienced higher operating costs in 2009 largely as a result of capacity issues at the lagoons at one Ontario property. Landscaping/snow removal costs are $0.1 million lower, however, salary costs increased $0.1 million as more of this work is being done internally.

Utility costs increased 8.1% compared to the prior year. Water costs increased 8.9% as a result of leaks at five communities, which have subsequently been repaired. Electricity costs increased 4.5% year-over-year. Property taxes increased 6.0% as a result of increased assessments.

MHC Operating Expense Percentage



Dollar amounts in thousands (except as noted)

MHCs –Segments

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

For the year ended December 31, 2010		**Seasonal Communities**		**Traditional MHCs**	**Total**
Rental revenue		**$2,995**		**$21,618**	**$24,613**
Other revenue		**181**		**113**	**294**
Total revenue		**3,176**		**21,731**	**24,907**
Property expenses					
Operating expenses	***39.6%***	**1,257**	***17.4%***	**3,796**	**5,053**
Utilities	***5.4%***	**173**	***10.0%***	**2,167**	**2,340**
Property taxes	***3.9%***	**124**	***4.9%***	**1,061**	**1,185**
Total property expenses	***48.9%***	**1,554**	***32.3%***	**7,024**	**8,578**
Net operating income		**$1,622**		**$14,707**	**$16,329**

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

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

NOI for Killam's seasonal communities increased by 4.8% as revenues were higher in 2010 due to increased rates and continued strong demand from short-term visitors. Total property expenses were consistent at approximately $1.5 million.

Killam's traditional MHC sites generated same store NOI growth of 4.8% during 2010.

Dollar amounts in thousands (except as noted)

Home Sales

For the years ended December 31,	**2010**	2009	% Change
Home sale revenue	**$3,006**	$2,669	12.6%
Cost of home sales	**(2,559)**	(2,306)	11.0%
New home placement fees	**82**	70	17.1%
Operating expenses	**(126)**	(199)	(36.7)%
Income from home sales	**$ 403**	$ 234	72.2%

Killam completed 28 home sales and 17 home sale placements during 2010 compared to 25 home sales and 9 home sale placements in 2009. The average sale price and cost of homes sold in 2010 was $107,400 and $91,400, respectively, resulting in an average gross margin of $16,000 per home (2009 – $14,500).

Demand for homes has been steady in Nova Scotia, with the newly expanded Birchlee MHC in the Halifax area driving the most activity. There has been increased activity in Ontario and the West with six sales completed in Ontario, one in Alberta and three in Saskatchewan. Killam currently has approximately 124 lots available for new home placement. Management continually monitors sales activities in each market and based on current information anticipates home sales for 2011 to be between 40 and 50 units.

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

Other Expenses

Financing Costs

For the years ended December 31,	**2010**	2009	% Change
Mortgage and loan interest	**$27,435**	$26,034	5.4%
Convertible debenture interest	**3,225**	2,981	8.2%
Subordinated debenture interest	**687**	1,348	(49.0)%
Credit facility interest	**—**	56	— %
	$31,347	$30,419	3.1%

Mortgage and loan interest expenses were higher during 2010, on a gross dollar basis, compared to the prior year due to the increase in the mortgage portfolio related to refinancings and acquisitions. Mortgage and loan interest expense on Killam's same store properties was $25.6 million in 2010, down $0.3 million from the $26.9 million expense in 2009. As a percentage of operating revenue, mortgage and loan interest expense in 2010 was lower at 24.2% compared to 24.9% in 2009. Convertible debenture interest was higher in 2010 as the Company issued $57.5 million convertible debentures bearing interest at 5.65% on November 30, 2010. In connection with this financing, on December 13, 2010, the Company retired its outstanding $42.2 million convertible debentures bearing interest at 6.5%. The additional $5.3 million raised is expected to be used to fund a portion of Killam's apartment development projects in 2011. Killam's decision to retire $10 million of subordinated debentures in the last quarter of 2009 saved the Company $0.7 million in interest charges during 2010.

The Company manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates of its mortgages. An annualized 1% change in the interest rate on Killam's mortgage and vendor debt at December 31, 2010 would affect financing costs by approximately $5.7 million per year. However, only $50.6 million of Killam's mortgage and vendor debt matures in the next twelve months and that same interest rate change would impact Killam by only $0.5 million per annum. See further discussion regarding Killam's mortgage refinancings under the "Mortgage and Debentures Payable" section beginning on page 50. The Company's credit facility is discussed on page 52.

Dollar amounts in thousands (except as noted)

Depreciation Expense

As a percentage of operating revenue, depreciation expense was 25.9% and 26.1% for the years ended December 31, 2010 and 2009 respectively. Total depreciation expense increased in 2010 as a result of acquisitions and additional capital expenditures in 2010. As a percentage of revenue, depreciation expense remained steady as the expenditures were offset by increased revenues from the acquisitions and same store revenue growth.

Amortization of Deferred Financing Costs

Deferred financing amortization expense is $0.2 million higher than the 2009 expense. The 2010 expense includes the $0.5 million write-off of unamortized deferred financing associated with Killam's redemption of its 6.5% convertible debentures. The 2009 amount included the write-off of financing costs on properties previously used as security for the line of credit as well as amortization of deferred financing costs related to $10 million of subordinated debentures which were retired in the fourth quarter of 2009. The costs related to mortgage assumption fees, application fees and legal costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. The costs associated with the convertible and subordinated debentures are amortized over the terms of the debentures.

General and Administrative Expenses

For the years ended December 31,	**2010**	2009	% Change
Total	**$7,441**	$6,732	10.5%
As a percentage of total revenues	**6.4%**	6.2%	

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

The 2010 expenses are impacted by the cost of due diligence for properties not purchased ($0.2 million) and IFRS conversion costs ($0.3 million). Excluding these items, the general and administrative percentage would have been 6.0% in 2010. Management targets annualized general and administrative costs at approximately 6%.

Provincial Large Corporation Tax (Capital Tax)

The Company pays provincial capital tax in Nova Scotia and Ontario based on the total taxable capital invested in those provinces at year-end. Total taxable capital invested includes shareholders' equity, debentures, credit facility and mortgages on properties held outside the Company's internal trusts and is not a function of the time the capital is invested. These taxes are deductible for provincial and federal income tax purposes. The tax rates in each province have been reduced compared to the prior year and are expected to be phased out between 2010 and 2012. In addition, Killam's capital spending on solar panels and wind turbines qualifies it for reductions in its Nova Scotia capital tax. As a result of these reductions Killam's large corporations tax expense fell to $0.2 million in 2010 from $0.3 million in 2009.

Income Tax

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

Funds from Operations (FFO)

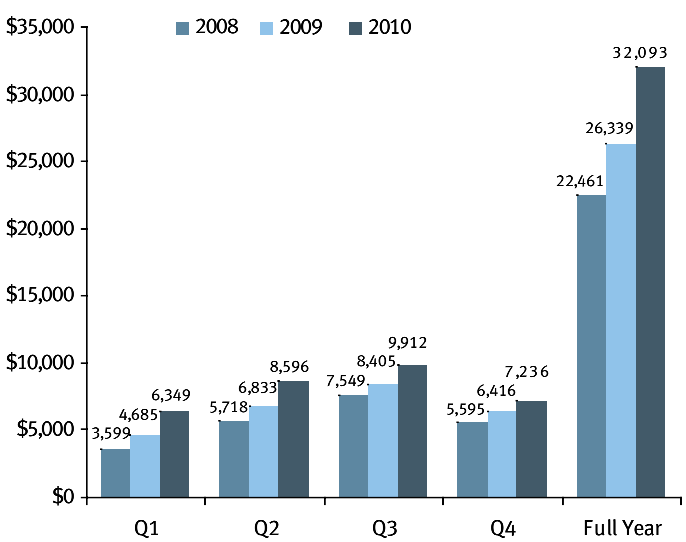
Management considers Funds from Operations (FFO) a key measurement of operating performance. FFO does not have a standardized meaning under GAAP and therefore may not be comparable to similarly titled measures presented by other public companies. Killam calculates FFO as follows:

For the years ended December 31,	**2010**	2009	% Change
Net loss	**$(130)**	$(1,843)	92.9%
Depreciation and amortization	**31,044**	28,831	7.7%
Non-cash debenture interest	**360**	369	(2.4)%
Non-cash share compensation	**479**	450	6.4%
Gain on debt retirement	**—**	(638)	N/A%
Future income tax expense (recovery)	**340**	(830)	N/A%
Funds from operations	**$32,093**	$26,339	21.8%
Weighted average shares (000's)	**43,393**	36,247	19.7%
FFO/share	**$0.74**	$0.73	1.4%

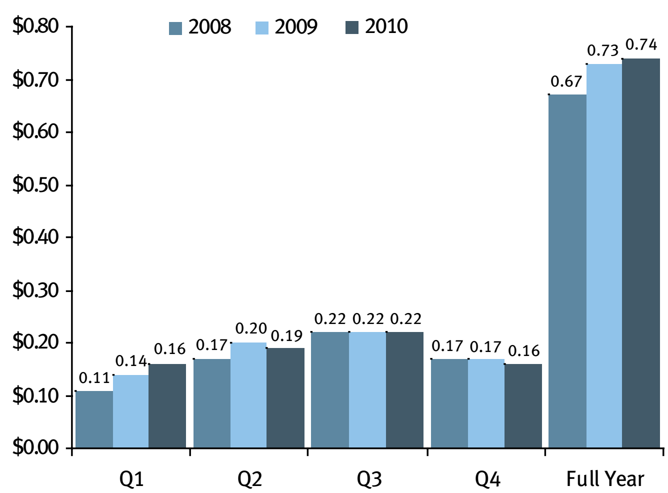
Funds From Operations (FFO)

The Company's FFO continued to grow on a total dollar basis, increasing $5.8 million, or 21.8%, year-over-year due to acquisitions, rental increases and reduced fuel costs. The increase was largely offset by the timing of the deployment of a $50.6 million equity raise completed in March of 2010, resulting in a 19.7% increase in the average shares outstanding. FFO per share grew 1.4% to $0.74 per share from $0.73 per share in 2009. The Company has a cash balance of $16.1 million at December 31, 2010 which is expected to be partially deployed for further acquisitions.

FFO (in $000s)



FFO Per Share (in $)



Dollar amounts in thousands (except as noted)

Adjusted Funds From Operations

Adjusted Funds From Operations (AFFO) is a supplemental measure used by real estate analysts and some investors to represent the net cash generated from operations after taking into consideration the capital spend related to maintaining the earning capacity of a portfolio. AFFO is a non-GAAP measure and is not considered a key operating statistic for management. Management believes that significant judgment is required to determine the annual capital expenditures that relate to maintaining the earning capacity of an asset compared to the capital expenditures that will lead to higher rents or more efficient operations.

In order to provide analysts and investors with information to adequately assess the Company's payout ratio, management has calculated AFFO using the industry standard of $450 per apartment unit. The MHC industry does not have a standard amount for "maintenance" related capital expenditures. Management has assumed that $100 per MHC site is a reasonable estimate to use, representing approximately 50% of the expected annual capital expenditure per MHC unit. The weighted average number of rental units owned during the period was used to determine the capital adjustment applied against FFO.

For the years ended December 31,	**2010**	2009	% Change
Funds from operations	**$32,093**	$26,339	21.8%
Maintenance Capital Expenditures			
Apartments	**(4,204)**	(4,023)	4.5%
MHCs	**(929)**	(926)	0.3%
Adjusted funds from operations	**$26,960**	$21,390	26.0%
AFFO/ share	**$0.62**	$0.59	5.1%
AFFO Payout Ratio (1)	**90%**	95%	

(1) Based on Killam's annualized dividend of $0.56 per share.

Sources and Uses of Cash

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

For the years ended December 31,	**2010**	2009
Cash provided by operating activities	**$33,283**	$26,226
Cash provided by financing activities	**69,724**	(300)
Cash used in investing activities	**(97,863)**	(19,299)
Increase in cash	**$ 5,144**	$ 6,627

Cash from operating activities increased by $7.1 million for the year ended December 31, 2010, due primarily to new properties and to increased same store NOI compared to 2009.

Killam's net cash provided by financing activities was $69.7 million in 2010. Net cash inflows of $48.7 million from the issuance of common shares, $15.3 million of net cash inflow related to the issuance and redemption of convertible debentures and the positive cash flow of $21.5 million from mortgage refinancings and issuance of new debt on acquisitions of $27.2 million were offset by cash dividends of $23.2 million, regular principal debt payments of $14.4 million and the payout of a $0.9 million mortgage which was refinanced in 2011.

Dollar amounts in thousands (except as noted)

Cash used in investing activities increased to $97.9 million in 2010. The increase is attributable to the acquisition of properties totaling $83.2 million (net of debt assumed) as well as $15.6 million of capital investment. A reconciliation of cash used in investing activities is shown below:

For the years ended December 31,	**2010**	2009
Acquisitions (including 3rd party costs)	**$(117,829)**	$ (3,253)
Capital improvements and development	**(15,623)**	(15,171)
Shares issued on acquisitions	**—**	601
Mortgages assumed on acquisitions	**34,597**	—
Net cash used for capital assets	**$ (98,855)**	$(17,823)
Decrease (increase) in restricted cash	**992**	(1,476)
Cash used in investing activities	**$ (97,863)**	$(19,299)

Killam believes that cash generated by operations and refinancing of mortgages maturing in 2011 and 2012 will be sufficient to meet its anticipated cash requirements for operations, including dividend payments, regular principal repayments and capital requirements for the existing portfolio.

Consolidated Balance Sheet

Real Estate Assets

As at December 31,	**2010**	2009	% Change
Net book value	**$813,454**	$709,314	14.7%

Capital assets increased to $813.5 million from $709.3 million following $117.8 million of acquisitions (including related acquisition costs) and $15.6 million in capital improvements and developments. These increases were partially offset by $29.3 million in depreciation.

Capital Improvements

	2010			2009		
	Apts	**MHC**	**Total**	Apts	MHC	Total
Project improvements	**$3,819**	**$3,359**	**$7,178**	$2,620	$2,272	$4,892
Suite improvements	**3,741**	**—**	**3,741**	3,394	—	3,394
Equipment	**479**	**272**	**751**	386	240	626
Appliances	**335**	**1**	**336**	407	—	407
Other	**108**	**2**	**110**	72	—	72
	$8,482	**$3,634**	**$12,116**	$7,419	$2,512	$9,931

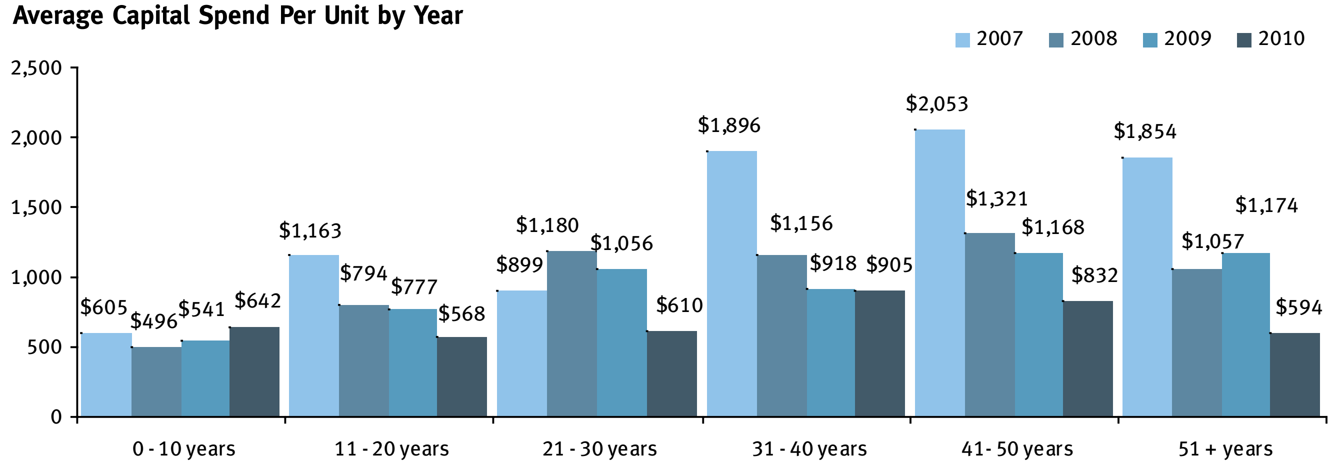
The Company invested $12.1 million in capital improvements during 2010 compared to $9.9 million in 2009. $8.5 million was invested on the apartment portfolio, compared to $7.4 million in 2009. Project improvement expenditures were up $1.2 million compared to 2009 as a result of capital expenditures completed at Forest Hills Tower in Fredericton. Following a fire in September 2009, Killam took the opportunity to complete general upgrades to the property, which were not covered by insurance, while the fire related reconstruction was ongoing. Suite renovation expenditures in 2010 were $0.2 million lower than 2009.

The increased expenditures associated with project improvements in the MHC portfolio relate to the construction of a new waste-water treatment plant at the Company's Silver Creek MHC as well as upgrades to waste water facilities at a number of other MHCs. Killam expects to spend an annual average maintenance capital of $400 per apartment unit and $100 per MHC site for properties that it has owned for over three years. These costs may be influenced by tenant turnover, market conditions, and individual property requirements, causing an annual variability in capital requirements. As well, Killam estimates it spends approximately $400 and $100 per unit annually for apartments and MHCs, respectively, for revenue enhancing upgrades.

In addition to the timing of ownership, the age of the properties influences the annual capital investment. The following chart shows the average capital spent per unit for same store properties for each of the last four years. Same store properties represent 73%, 84%, 97% and 95% of the apartment portfolio for 2007, 2008, 2009 and 2010 respectively. As the chart highlights, the capital spend per unit is less for newer properties. This analysis excludes capital spending on major repositionings and energy projects.

The average per unit spend at the buildings constructed in the last ten years was higher than normal in 2010 due to a larger than normal improvement at one property. Excluding this project, the capital spend in the Company's newest properties was $396 per unit.

Average Capital Spend Per Unit by Year



In addition to capital expenditures, Killam has incurred $4.5 million in repairs and maintenance costs in 2010 (2009 – $4.4 million), including $3.2 million for the apartment portfolio and $1.1 million for the MHC portfolio (2009 – $2.9 million and $1.5 million, respectively).

Dollar amounts in thousands (except as noted)

Development and Energy Projects

	2010			2009		
	Apts	**MHC**	**Total**	Apts	MHC	Total
Development projects	**$1,033**	**$1,249**	**$2,282**	$0	$4,051	$4,051
Energy projects	**844**	**179**	**1,023**	973	216	1,189
	$1,877	**$1,428**	**$3,305**	$973	$4,267	$5,240

Apartment development projects represent the start of construction at Charlotte Court in PEI ($0.8 million) as well as preliminary work for new buildings at the Forest Hills property in Fredericton, NB and the Shaunslieve property in Halifax, NS. Apartment energy projects in 2010 include the addition of solar panels at One Oak and Parker Street properties in Halifax as well as the installation of additional solar panels at 59 Glenforest in Halifax.

The MHC development project spending relates to costs associated with the completion of MHC site expansions and redevelopment at Birchlee in Nova Scotia, as well as Listowel and Golden Horseshoe in Ontario. The development at Birchlee represented the expansion of 49 new sites and upgrades to the existing 176 site community. The total cost associated with the expansion at Birchlee was approximately $1.6 million, or $32,000 per site. The Listowel expansion included 10 new sites added, and connections to the municipal water and sewer systems which will benefit the entire community and enable the future development of 100 sites. Expansion costs vary by community depending on infrastructure requirements to support new sites. Where Killam is able to sell a new home on an expanded site, the gross margin earned on the sale has the potential to offset a significant portion of the expansion cost. The MHC energy project in 2010 related to the installation of a 50 kW turbine at Mountainview MHC that became operational in early 2010.

Other Assets

As at December 31,	**2010**	2009	% Change
Prepaid property taxes	**$1,022**	$ 886	15.3%
Prepaid insurance	**292**	263	11.0%
Other prepaids/assets	**450**	352	27.8%
Inventory	**1,630**	2,117	(23.0)%
Deferred charges	**121**	160	(24.4)%
Goodwill	**4,500**	4,500	— %
	$8,015	$8,278	(3.2)%

Deferred charges relate to costs associated with the Company's expansion on certain vacant lands. The inventory balance of $1.6 million represents new manufactured homes that have not yet been sold as well as show homes. Goodwill presented above is the tax effect of the Company's acquisition of a property through a share purchase transaction. The off-setting liability is presented in future income taxes.

Dollar amounts in thousands (except as noted)

Mortgages and Debentures Payable

As at December 31,	**2010**	2009	% Change
Mortgages	**$569,560**	$497,816	14.4%
Vendor financing	**4,689**	8,369	(44.0)%
	574,249	506,185	13.4%
Less: deferred financing	**(7,359)**	(6,105)	20.5%
Total mortgages and vendor financing	**$566,890**	$500,080	13.4%
Convertible debentures	**$ 52,540**	$ 41,575	26.4%
Less: deferred financing	**(2,370)**	(753)	214.7%
Subordinated debentures	**9,840**	9,769	0.7%
Less: deferred financing	**(147)**	(217)	(32.3)%
	$ 59,863	$ 50,374	18.8%
Total debt	**$626,753**	$550,454	13.9%
Weighted average years to maturity of mortgage and vendor debt	**4.0**	4.1	
Gross mortgage and vendor debt as a percentage of GBV	**57.6%**	59.2%	
Total gross debt as a percentage of GBV	**63.8%**	65.2%	
Interest coverage ratio	**2.0**	1.8	
Weighted average interest rate of mortgage and vendor debt	**5.0%**	5.2%	
Weighted average interest rate of total debt	**5.2%**	5.3%	

The Company's long-term debt consists largely of fixed-rate, long-term mortgage financing. In certain cases the Company will also utilize vendor-take-back mortgages as part of an acquisition. As at December 31, 2010, no mortgages or vendor debt have floating interest rates. Mortgages are secured by a first or second charge against the individual properties and the vendor financing is secured by a general corporate guarantee. Mortgages and vendor financing payable increased due to mortgages on acquisitions ($70.2 million) and net proceeds on the refinancing of maturing mortgages ($21.5 million) partially offset by regular principal repayments and the payout at year-end of a maturing mortgage.

Killam's December 31, 2010 weighted average interest rate on mortgages improved to 5.0% compared to 5.2% as at December 31, 2009. The Company's weighted average years to maturity fell slightly to 4.0 years.

Total gross debt as a percentage of gross book value (GBV) decreased to 63.8% from 65.2% at December 31, 2009 as a result of the Company's equity raise in the first quarter of 2010. GBV is defined as total assets plus accumulated depreciation and deferred financing costs which have been netted against debt. Management expects to maintain the ratio of debt to GBV to between 65% and 70%.

During the year ended December 31, 2010 Killam refinanced the following maturing mortgages:

2010 Refinancings

	Mortgage Debt Maturities YTD		Mortgage Debt on Refinancing		Net Proceeds
Apartments (1)	$37,762	5.31%	$55,248	3.85%	$17,486
MHCs (2)	14,299	5.22%	18,291	5.36%	3,992
	$52,061	5.29%	$75,539	4.22%	$21,478

(1) The majority of apartment mortgages refinanced in 2010 were CMHC insured.
(2) In addition, a $0.9 million mortgage was paid out at year-end and refinanced in January 2011 in the amount of $1.2 million.

Dollar amounts in thousands (except as noted)

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

	Apartments			MHCs		Total	
Year of Maturity	Balance Dec 31, 2010	Weighted Avg Int. Rate %	% CMHC Insured	Balance Dec 31, 2010	Weighted Avg Int. Rate %	**Balance Dec 31, 2010**	**Weighted Avg Int. Rate %**
2011	$45,118	5.57	16.9	$5,466	5.37	**$50,584**	**5.55**
2012	34,363	4.90	67.9	17,520	5.94	**51,883**	**5.25**
2013	65,157	4.63	80.1	12,208	6.23	**77,365**	**4.89**
2014	118,392	4.55	55.9	19,072	5.60	**137,464**	**4.70**
2015	87,329	4.54	45.2	37,630	5.38	**124,959**	**4.79**
2016	51,213	5.18	24.0	12,615	5.50	**63,828**	**5.25**
2017	2,877	5.57	—	11,556	5.71	**14,433**	**5.68**
2018	3,884	4.82	100.0	—	—	**3,884**	**4.82**
2019	20,154	4.87	100.0	—	—	**20,154**	**4.87**
2020	19,807	4.08	100.0	—	—	**19,807**	**4.08**
Thereafter	9,888	5.15	100.0	—	—	**9,888**	**5.15**
	$458,182	4.78	55.6	$116,067	5.64	**$574,249**	**4.95**

As at December 31, 2010, approximately 56% of the Company's apartment mortgages are CMHC insured (45% of all mortgages) (December 31, 2009 – 52% and 41%, respectively). The weighted average interest rate on these CMHC insured mortgages was 4.41% as at December 31, 2010 (December 31, 2009– 4.64%).

The following table presents the NOI of properties that are available to Killam to refinance at debt maturity for 2011 and 2012, as well as VTB debt maturing during 2011 and 2012.

	Number of Properties	**NOI (last 12 months)**	**Principal Balance (at maturity)**
2011			
Apartments with debt maturing in 2011 (1)	19	$6,846	$47,382
MHCs with debt maturing in 2011	5	669	5,314
2011 Debt Maturities	24	$7,515	$52,696
2012			
Apartments with debt maturing in 2012	9	$3,806	$29,425
MHCs with debt maturing in 2012	10	2,419	16,429
2012 Debt Maturities	19	$6,225	$45,854

(1) Includes $3.1 million of 2012 mortgages Killam may refinance to consolidate mortgages on certain properties which were assumed on acquisition.

Debentures

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

In conjunction with the issuance of the convertible debentures noted previously, on December 13, 2010 the Company redeemed its outstanding $42.2 million convertible debentures bearing interest at 6.5% which were to mature in May 2012. The debentures were redeemed at face value.

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

Credit Facility

The Company has a credit facility with a major financial institution that can be used to finance the Company's on-going acquisition program. The amount available under the revolving facility varies with the value of pledged assets, to a maximum of $15 million. The facility includes the option for a commitment increase, allowing Killam a one-time opportunity to increase the credit limit to $40 million. The interest rate on the debt is either prime plus 200 basis points on prime rate advances or 300 basis points over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at December 31, 2010 the Company had $1.7 million of assets pledged for the line and had no balance outstanding on the line. This facility expires in May 2011.

Shareholders' Equity

In March 2010, Killam closed a public share offering, on a bought-deal basis, of 6,210,000 shares, after full exercise of the underwriters' over-allotment option, to the public at a price of $8.15 per share for gross proceeds of $50.6 million. In July 2009, Killam closed a public share offering, on a bought-deal basis, of 4,255,000 shares, after full exercise of the underwriters' over-allotment option, to the public at a price of $5.80 per share for gross proceeds of $24.7 million.

The Company's Dividend Reinvestment Plan ("DRIP") allows shareholders to elect to have all cash dividends from the Company reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to a ten day volume weighted average price of the Company's common shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration (prior to December 2009 a five day weighted average was used). For the year ended December 31, 2010, the Company issued 145,801 common shares under the DRIP with a value of $1.3 million (2009 – 204,510 common shares with a value of $1.2 million). For the year ended December 31, 2010 the average DRIP participation rate was approximately 5%.

In August 2009, the Company announced that the Toronto Stock Exchange (the "TSX") had accepted Killam's notice of intention to renew its normal course issuer bid ("NCIB") for its common shares. Under the normal course issuer bid, Killam was able to acquire up to 3.1 million common shares commencing on August 22, 2009, and ending on August 21, 2010. All purchases of common shares were made through the facilities of the TSX at the market price of the shares at the time of acquisition. Daily repurchases by Killam were limited to 32,171 common shares, other than block purchase exceptions. Any shares acquired were cancelled. The Company has not renewed its NCIB.

Dollar amounts in thousands (except as noted)

For the year ended December 31, 2010 no common shares were purchased under the NCIB program. For the year ended December 31, 2009, 53,600 common shares were purchased and cancelled. The shares were purchased at an average price of $5.28 per share. The aggregate cost of the common shares purchased and cancelled for year ended December 31, 2009 was $0.3 million was recorded as a charge against share capital for the average carrying value of the common shares with the remainder charged against retained earnings and contributed surplus.

Quarterly Results and Discussion of Q4 Operations

Summary of quarterly results

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

	2010				2009			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Rental revenue	**$29,132**	**$29,744**	**$27,837**	**$26,014**	$26,220	$26,808	$25,854	$25,017
Total operating revenue	**29,290**	**29,900**	**27,976**	**26,113**	26,308	26,998	25,983	25,085
Operating expenses	**12,148**	**10,476**	**10,190**	**10,895**	10,990	9,454	9,899	11,425
Operating expense %	**41.5%**	**35.0%**	**36.4%**	**41.7%**	41.8%	35.0%	38.1%	45.5%
Home sale income	**62**	**170**	**52**	**119**	2	184	24	24
NOI	**17,204**	**19,594**	**17,838**	**15,337**	15,320	17,728	16,108	13,684
Net (loss) income	**(1,258)**	**1,344**	**353**	**(569)**	(172)	597	(356)	(1,912)
Per share basic	**(0.03)**	**0.03**	**0.01**	**(0.00)**	(0.00)	0.01	(0.01)	(0.06)
Funds from operations	**7,237**	**9,911**	**8,596**	**6,349**	6,416	8,405	6,833	4,685
Per share basic	**0.16**	**0.22**	**0.19**	**0.16**	0.17	0.22	0.20	0.14
Total assets	**849,571**	**842,109**	**839,559**	**783,810**	739,373	752,491	734,525	739,540
Shareholders' equity	**208,348**	**210,574**	**214,849**	**220,252**	177,202	181,729	162,423	167,054

Fourth Quarter Review

FFO was $7.2 million in the fourth quarter, up 12.8% from $6.4 million in the same quarter last year. FFO per share was $0.16, down slightly from the $0.17 earned in the same period in 2009. The increased FFO reflects a 4.8% improvement in same store NOI and the positive impact from acquisitions. The per share results were impacted by higher interest costs associated with the November 30, 2010 issuance of $57.5 million convertible debentures and increased general and administrative costs which include IFRS fees.

Same store revenue was $26.7 million during the fourth quarter, a 2.8% increase from the fourth quarter of 2009. This increase was attributable to increased rents. Both the apartment and MHC segments realized revenue growth of 2.0% and 5.4%, respectively.

Same store operating costs increased 3.6% during the fourth quarter of 2010 when compared to the same quarter in 2009. Utility costs decreased 2.3% in the fourth quarter of 2010 compared to the same quarter of 2009 as higher oil and water costs were offset by $0.2 million in hedge settlement costs in Q4/09 for out-of-the money fixed rate hedge contracts for both natural gas and heating oil increased costs. Property taxes increased quarter-over-quarter by 5.1%, compared to an annualized increase of 4.6% as the result of the finalization of property tax appeals and the impact of tax recovery billing adjustments recorded in the quarter to finalize MHC tenant's home property tax bills.

By segment, the apartments realized positive same store NOI growth in the fourth quarter, up 0.9% compared to the fourth quarter of 2009, benefiting from strong revenue growth and a reduction in fuel costs. MHC same store NOI was up 6.4% in the period, as operating costs fell 2.3% (which account for 58% of total operating expenses). Increases in utility and property taxes resulted in an increase in total operating costs of 3.7%.

Risk Management

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

General Risks

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

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

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

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

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

Specific Risks

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

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

Interest Risk is the combined risk that the Company would experience a loss as the result of its exposure to a higher interest rate environment (Interest Rate Risk) and the possibility that at the time of maturity of a mortgage the Company would be unable to renew the maturing debt either with the existing lender or with a new lender (Renewal Risk). The Company structures its debt so as to stagger the maturity dates, thus reducing exposure to any short-term fluctuations in rates. To mitigate against renewal risk, the Company uses CMHC insured mortgages for apartment financings.

Rent Control Risk is the risk of the implementation or amendment of new or existing legislative rent controls in the markets in which Killam operates, which may have an adverse impact on the Company's operations. Currently Prince Edward Island, Ontario, and British Columbia are the only provinces in which the Company operates that have rent controls. During the fourth quarter of 2010 the government of Nova Scotia announced plans to introduce a rental increase formula for MHCs starting in 2011. However, details of what will be used to determine the annual allowable rate increase have not yet been disclosed.

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

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

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

Critical Accounting Estimates

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

Impairment of Long-lived Assets

Under Canadian GAAP, Killam is required to write down to fair value any capital assets where the net undiscounted cash-flows from the property over the anticipated holding period exceeds carrying value. This calculation requires subjective assumptions on general economic conditions, occupancies, rental rates and residual value. In the event these assumptions result in the sum of the undiscounted cash flows exceeding the assets carrying value, an impairment loss would be recognized. To calculate this impairment loss would then require management to determine an appropriate discount rate, which is subjective.

Building Amortization

A key estimate that management makes is regarding the depreciation of its building assets. Since January 1, 2004, the Company has used the straight-line method of amortization in accordance with Section 3061 of the Canadian Institute of Chartered Accountants (CICA) Handbook. If management's assumptions of estimated useful life or allocation of purchase price to building assets proves incorrect, the computation of depreciation could be materially different than recorded amounts.

Property Acquisitions

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

Capitalized Expenditures

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

Stock-based Compensation

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

Accounting Policy Changes

Future Accounting Policy Changes

International Financial Reporting Standards (IFRS)

Overview

The Canadian Accounting Standards Board ratified a strategic plan that will see Canadian GAAP converged with, and replaced by, International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. Killam will present its first IFRS consolidated financial statements in the first quarter of 2011.

IFRS Conversion Plan

The Company has developed a plan to convert its Consolidated Financial Statements to IFRS by the transition date of January 1, 2011. The conversion is being led by the accounting and finance team. External resources have been engaged to assist with certain aspects of the project. Killam's Senior Executives are actively involved with the conversion process and there is regular progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation.

IFRS is premised on a conceptual framework similar to Canadian GAAP, however there are significant differences in certain matters of recognition, measurement, presentation and disclosures. Below are the key changes in accounting policies due to the adoption of IFRS that are expected to impact Killam's Consolidated Financial Statements. This is not a complete list of changes that will result from the transition to IFRS and is intended to highlight those changes believed to have the most significant impact on Killam's accounting policies.

The International Accounting Standards Board ("IASB") is currently in the process of amending, or expected to amend, numerous standards that are applicable to Killam. The analysis of accounting policy changes has been made based on the IFRS standards that are anticipated to be effective at the time of transition. The future impacts of IFRS will also depend on the particular circumstances prevailing in the year of adoption and going forward. As IFRS standards are amended, management will continue to evaluate the impact to its processes and accounting policies on adoption and will provide updated disclosure as appropriate.

The table below summarizes the key components of Killam's IFRS transition.

Key Activities	Milestones	Status
Accounting Policies and Procedures		
Identify differences between IFRS and Canadian GAAP.	Complete assessment of differences between IFRS and GAAP.	Completed. Killam will adopt the fair market value model for investment properties.
Select accounting policy choices.	Review and approval of policy decisions by Q3 2010.	Selection of policies is substantially complete.
Evaluate and select which IFRS 1 exemptions will be taken on transition to IFRS.	Confirm selection of exemptions by Q2, 2010.	Completed. Management anticipates electing the business combinations exemption in IFRS 1 to restate any of its business combinations as at the IFRS transaction date and not apply IFRS 3 (Revised) retrospectively to past business combinations.
Financial Statement Preparation		
Prepare financial statement and note disclosure in compliance with IFRS.	Senior management approval and audit committee review of preliminary pro forma financial statements and disclosure by Q3 2010.	Complete.
Quantify the effect of converting to IFRS.	Quantification of the effect of the conversion by Q3 2010.	Complete, including the quantification of the fair market value of investment properties. Valuation for opening balance sheet provided by independent appraiser. Audit by the external auditor is outstanding.
Prepare first time adoption reconciliation required under IFRS 1.	Reconciliation completed and approved by changeover date.	Substantially complete. Audit Committee approval and auditor review outstanding.
Information Systems		
Identify required changes to the financial system based IFRS implementation.	Complete a review of systems and process to address additional systems required to implement IFRS.	Identification of changes required to the financial systems was completed and determined to be minimal.
Internal Controls Over Financial Reporting and Disclosure Controls and Procedures		
Assess required changes to existing internal controls procedures for identified changes to policies and procedures.	Completion of internal controls review by Q3 2010.	Assessment of required changes completed.
Design and implement internal control procedures for IFRS related changes.	Implementation and review of new internal controls by year-end 2010.	Complete.

Dollar amounts in thousands (except as noted)

Business Processes		
Identify impact of conversion on contracts, including financial covenants and compensation agreements.	Impacts on contracts, covenants and compensation identified.	The review of financial contracts is complete. Management continues to monitor new agreements for IFRS impact.
		A review of compensation agreements has not identified any changes required to the agreements due to IFRS implementation.
Complete required amendments to contracts.	All required changes to contracts completed by year-end 2010.	The subordinated debentures are the only debt instruments with debt covenants relating to debt to book value.
Training and Communication		
Provide training to affected employees, management, Board of Directors, and Audit Committee.	Training for employees, management, Board of Directors and Audit Committee completed by Q4 2010.	IFRS information sessions have taken place with the Board of Directors. Senior accounting staff have had technical training. Training will continue during 2011.
Timely communication to all internal and external stakeholders	Impacts of IFRS conversion communicated to stakeholders on a quarterly basis.	Communication to external stakeholders through quarterly MD&A disclosure. Management reports IFRS progress and updates to the Audit Committee on a quarterly basis.

Summary of Key Differences between IFRS and GAAP

Investment Property – IAS 40

Investment property is defined as property held to earn rental income or for capital appreciation or both. As such, under IAS 40, Killam's properties would meet the definition of investment property. Under IAS 40, Killam can elect to measure its investment properties using either the fair value model or the cost model; the same model must be applied to all investment property. Under Canadian GAAP only the cost model is available. Under the fair value model, the investment property is carried at fair value on one line on the balance sheet with amortization expense no longer recorded, however, changes in fair value are reported through earnings in each reporting period. The cost model (as defined in IAS 16) closely resembles current Canadian GAAP, however, the fair values must still be disclosed in the notes to the financial statements. Under IFRS 1- First time adoption of IFRS, Killam may choose either valuation model for its properties prospectively and if the fair value model is chosen the resulting adjustment is recorded directly to retained earnings.

Killam will adopt the fair value model of accounting for investment properties. Management engaged an accredited national appraisal firm (the "external valuator") to evaluate all investment properties held as at January 1, 2010 and the fair value of investment properties at January 1, 2010 is approximately $890 million, this equates to $180 million, or 25%, higher than the carrying value under GAAP at January 1, 2010 of $710 million. Under IFRS, straight line rent, direct leasing costs and incentive balances are included in the carrying amount of income properties and the intangible assets and liabilities established under GAAP in connection with business combinations are no longer separately recognized. In addition, Killam's future income tax liability is expected to increase as a result of the increase in carrying value of the Company's investment properties. The initial adjustment to increase the value of the properties and the related change in future income tax liability will be recognized in opening retained earnings.

The expected impact from recording investment properties at fair market is summarized below.

(in thousands)	**January 1, 2010**
IFRS value of Investment Properties (1)	$889,859
Carrying Value of Investment Properties	709,712
Difference between IFRS and Canadian GAAP	$180,147

(1) Includes proportionate share of two properties not 100% owned.

Valuation of investment properties

As previously noted, Management engaged an accredited national appraisal firm to provide a full independent appraisal of the Company's complete portfolio as at January 1, 2010. The external valuator used the direct capitalization income approach to value the Company's investment properties. Under this method, capitalization rates are applied to a standardized NOI representing market based assumptions. The most significant assumption is the capitalization rate for each specific property. The external valuator considered quantitative and qualitative measures to establish overall cap rate parameters as they pertain to Killam's portfolio, including:

1. Comparative sales analysis.
2. Review of overall cap rates from two recent Initial Public Offerings (IPOs) with apartment building assets in Atlantic Canada.
3. Brokerage and advisory surveys.
4. Correlation of the historic spreads between average overall capitalization rates and the 5 and 10 year Government of Canada bond yields.
5. Interviews with leading market participants.

The individual properties were valued using Capitalization rates ranging from 5.75% to 8.75% on the apartment portfolio, with a weighted average of 6.8%, and from 6.75% to 8.75% on the MHC portfolio, with a weighted average of 7.7%.

A summary for the capitalization rate ranges for each property type and geographic areas are presented below as at January 1, 2010:

	Cap Rate Range		
	Low	**High**	**Weighted Average**
Apartments			
Halifax	5.75%	7.75%	6.57%
Moncton	6.25%	8.75%	6.94%
Fredericton	6.25%	7.50%	6.94%
Saint John	6.75%	7.50%	7.10%
Charlottetown	6.50%	7.25%	7.19%
St. John's	7.00%	7.00%	7.00%
Other	7.25%	7.50%	7.39%
MHCs			
Ontario	7.25%	7.75%	7.59%
Nova Scotia	6.75%	8.50%	7.29%
New Brunswick	7.75%	7.75%	7.75%
Newfoundland	6.75%	8.50%	7.69%
Western Canada	7.50%	8.75%	8.06%

One significant consequence of this accounting treatment is that Killam's indebtedness ratio is expected to be lower on the opening balance sheet under IFRS than the indebtedness ratio on the previous closing balance sheet under GAAP. Management does not expect to increase leverage in response to this change.

Valuation Process After January 1, 2010

The Company has developed its real estate valuation strategy and process for periods after the initial recognition of fair market value as at January 1, 2010. Approximately 20% of the portfolio will be valued by an external valuator on an annual basis. The properties included in the third party valuation will primarily be those with mortgages that are maturing within the next fiscal year, however, management will ensure that a fair representation of the portfolio is included in the group of assets appraised externally on an annual basis, considering property size, quality and geography. Those assets not appraised by an external valuator will be valued internally by management using a similar valuation process as the external party valuator. Capitalization rates used for the internally generated valuation will be supplied by the external valuator.

On a quarterly basis, Management will use capitalization rates provided by an external valuator to determine the fair value of the investment properties. Management will adjust standardized NOI assumptions on a quarterly basis to consider any significant changes in operations. To the extent that changes in capitalization rates or NOI assumptions change the fair value of the investment properties from one period to the next, the fair value of investment properties would increase or decrease accordingly, with the change impacting the fair value adjustment line of the income statement.

Business Combinations – IFRS 3 Revised

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

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

Income Taxes – IAS 12

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

Disclosure Controls and Procedures and Internal Controls

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

Disclosure Controls and Procedures

As of December 31, 2010 the Company's management evaluated the effectiveness of the operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer.

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

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

Internal Controls over Financial Reporting

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

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

As of the financial year ended December 31, 2010, the certifying officers have evaluated the design and effectiveness of such ICFR, or caused them to be designed and evaluated under their supervision. The certifying officers have concluded that the design and effectiveness of ICFR were operating effectively as at December 31, 2010, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The certifying officers have evaluated whether there were any changes to the Company's ICFR during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect its ICFR. No changes were identified through their evaluation.

Subsequent Events

During the period January 1 to February 26, 2011 the Company refinanced $2.6 million of maturing apartment debt for net proceeds of $0.4 million. The previous weighted average interest rate was 5.08% and the interest rate on the new debt is 3.56%. In addition, the Company placed a $5.0 million mortgage at a rate of 3.52% on an apartment property, purchased in 2010 with cash. The Company has placed a $1.2 million mortgage on an MHC at an interest rate of 5.11%. The previous $0.9 million mortgage on the property was paid out in late 2010 and had an interest rate of 5.46%.

On January 14, 2011 and February 11, 2011, the Company announced dividends of $0.046668 per share, payable on February 15, 2011 and March 15, 2011, respectively, to shareholders of record on January 31, 2011 and February 28, 2011 respectively.

Management's Report

To the Shareholders of Killam Properties Inc.

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

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

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

Philip Fraser Robert Richardson

March 1, 2011

Independent Auditors' Report

To the Shareholders of Killam Properties Inc.

We have audited the accompanying consolidated financial statements of Killam Properties Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of loss, deficit, comprehensive loss, changes in accumulated other comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Killam Properties Inc. as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Halifax, Canada
March 1, 2011

Consolidated Balance Sheets

In thousands

As at December 31,

	2010	2009
ASSETS		
Real estate properties *(note 3)*	$813,454	$709,314
Cash *(note 4)*	16,105	10,961
Restricted cash *(note 4)*	6,029	7,020
Accounts receivable	4,861	2,676
Income tax receivable	37	400
Other assets *(note 5)*	8,015	8,278
Deferred financing costs (net)	61	84
Future income taxes	1,009	640
	$849,571	$739,373
LIABILITIES AND SHAREHOLDERS' EQUITY		
Mortgages and loans payable *(note 6)*	$566,890	$500,080
Convertible debentures *(note 7)*	50,170	40,822
Subordinated debentures *(note 8)*	9,693	9,552
Accounts payable and accrued liabilities	9,263	7,817
Dividends payable	2,102	1,800
Security deposits	3,105	2,100
	641,223	562,171
Shareholders' Equity		
Capital stock *(note 10)*	293,961	243,205
Contributed surplus *(note 10)*	2,290	1,842
Other paid-in capital *(notes 7 and 8)*	5,873	2,468
Accumulated other comprehensive loss	—	(15)
Deficit	(93,776)	(70,298)
	208,348	177,202
	$849,571	$739,373

See accompanying notes

On behalf of the Board

G.W. Watson

Philip Fraser

G. Wayne Watson
Director

Philip Fraser
Director

Consolidated Statements of Loss

In thousands (except per share amounts)

For the year ended December 31,

	2010	2009
Property Operations		
Rental revenue	$112,727	$103,899
Other operating income	552	475
Property operating expenses	(43,709)	(41,768)
Income from property operations	69,570	62,606
Home Sale Operations		
Home sale revenues	3,006	2,669
Cost of home sales	(2,559)	(2,306)
New home placement fees	82	70
Operating expenses	(126)	(199)
Income from home sales	403	234
Income before undernoted items	69,973	62,840
Corporate revenue	(547)	(424)
Gain on debt retirement	—	(638)
Mortgage and loan interest	27,435	26,034
Convertible debenture interest	3,225	2,981
Subordinated debenture interest	687	1,348
Credit facility interest	—	56
Depreciation	29,313	27,281
Amortization of deferred financing	1,731	1,550
General and administrative	7,441	6,732
Provincial capital taxes	220	313
Interest and bank charges	258	280
	69,763	65,513
Income (loss) before income taxes	210	(2,673)
Future tax (expense) recovery	(340)	830
Net loss	($130)	($1,843)
Net loss per share		
– basic	($0.00)	($0.05)
– diluted	($0.00)	($0.05)

Consolidated Statements of Deficit

In thousands

For the year ended December 31,

	2010	2009
Deficit, beginning of year	($70,298)	($48,114)
Net loss	(130)	(1,843)
Convertible debenture redemption	1,219	—
Dividends	(24,567)	(20,341)
Deficit, end of year	($93,776)	($70,298)

Consolidated Statements of Comprehensive Loss

In thousands

For the year ended December 31,

	2010	2009
Net loss	($130)	($1,843)
Fair value of fuel hedges, net of tax	15	535
Comprehensive loss	($115)	($1,308)

Consolidated Statements of Accumulated Other Comprehensive Income

In thousands

For the year ended December 31,

	2010	2009
Balance, beginning of year	($15)	($550)
Fair value of fuel hedges, net of tax	15	535
Balance, end of year	$0	($15)

Consolidated Statements of Cash Flows

In thousands

For the year ended December 31,

	2010	2009
OPERATING ACTIVITIES		
Net loss	($130)	($1,843)
Add (deduct) items not affecting cash		
Depreciation and amortization	31,044	28,831
Non-cash debenture interest	360	369
Non-cash compensation expense	479	450
Gain on debt retirement	—	(638)
Future income taxes	340	(830)
Net change in non-cash working capital		
items related to operations	1,190	(113)
Cash provided by operating activities	33,283	26,226
FINANCING ACTIVITIES		
Increase in deferred financing	(4,509)	(2,193)
Issue of common shares for cash	48,665	23,340
Repurchase of common shares for cash	—	(283)
Issuance of convertible debentures	57,500	—
Repayment of convertible debentures	(42,200)	—
Repayment of subordinated debentures	—	(8,900)
Repayment of credit facility	—	(10,600)
Repayment of long-term debt – on refinancing	(50,483)	(70,254)
Regular principal repayments	(14,351)	(12,638)
Issuance of long-term debt	98,300	100,431
Cash dividends	(23,198)	(19,203)
Cash provided by (used in) financing activities	69,724	(300)
INVESTING ACTIVITIES		
Decrease (increase) in restricted cash	992	(1,476)
Purchase of capital assets (net of debt assumed)	(83,232)	(2,652)
Capital expenditures	(15,623)	(15,171)
Cash used in investing activities	(97,863)	(19,299)
Net increase in cash	5,144	6,627
Cash, beginning of year	10,961	4,334
Cash, end of year	$16,105	$10,961
See accompanying notes		
Supplemental disclosure of cash paid		
Interest	$30,752	$30,403
Capital taxes	($143)	$693

Notes to Consolidated Financial Statements

Dollar amounts in thousands (except per share amounts)

1. Incorporation

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

2. Summary of Significant Accounting Policies

Basis of presentation

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

Use of accounting estimates

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

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

Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash. As at December 31, 2010, the Company's cash balances were held in bank accounts, which the Company has full access to, and do not include any instruments related to asset-backed securities or commercial paper programs.

Revenue recognition

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

Income taxes

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

2. Summary of Significant Accounting Policies (continued)

Stock-based compensation

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

Capital assets

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

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

Amortization

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

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

Deferred financing costs

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

Net income per share

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

Convertible subordinated debentures

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

2. Summary of Significant Accounting Policies (continued)

Inventory

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

Goodwill

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

Hedges

Hedge accounting requires that the Company document its risk strategy objectives and the relationships between the hedging instrument and the hedged item. The Company is also required to assess the effectiveness of the hedging relationship throughout its term and that it remains consistent with the Company's risk strategy. As at December 31, 2010, the Company did not have any contracts outstanding. As at December 31, 2009, the Company had various fuel cash flow hedges and concluded that the hedges were effective. The Company recognizes on its balance sheet the fair value of these hedges. The effective portion of the change in the fair value of the hedges is recorded in other comprehensive income and reclassified to fuel expense in the same period the related hedged transaction occurs. Any ineffective portion of the change in fair value of the hedge is recognized in net earnings in the reporting period.

Financial Instruments

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

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

2. Summary of Significant Accounting Policies (continued)

Future Accounting Policy Changes

International Financial Reporting Standards (IFRS)

Overview

The Canadian Accounting Standards Board ratified a strategic plan that will see Canadian GAAP converged with, and replaced by, International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. Killam will present its first IFRS consolidated financial statements in the first quarter of 2011.

IFRS Conversion Plan

The Company has developed a plan to convert its Consolidated Financial Statements to IFRS by the transition date of January 1, 2011. The conversion is being led by the accounting and finance team. External resources have been engaged to assist with certain aspects of the project. Killam's Senior Executives are actively involved with the conversion process and there is regular progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation.

IFRS is premised on a conceptual framework similar to Canadian GAAP, however, there are significant differences in certain matters of recognition, measurement, presentation and disclosures. Below are the key changes in accounting policies due to the adoption of IFRS that are expected to impact Killam's Consolidated Financial Statements. This is not a complete list of changes that will result from the transition to IFRS and is intended to highlight those changes believed to have the most significant impact on Killam's accounting policies.

The International Accounting Standards Board ("IASB") is currently in the process of amending, or expected to amend, numerous standards that are applicable to Killam. The analysis of accounting policy changes has been made based on the IFRS standards that are anticipated to be effective at the time of transition. The future impacts of IFRS will also depend on the particular circumstances prevailing in the year of adoption and going forward. As IFRS standards are amended, management will continue to evaluate the impact to its processes and accounting policies on adoption and will provide updated disclosure as appropriate. Based on the current assessment, the following standards have been identified as potentially having the most significant impact to Killam.

Investment Property – IAS 40

Investment property is defined as property held to earn rental income or for capital appreciation or both. As such, under IAS 40, Killam's properties would meet the definition of investment property. Under IAS 40, Killam can elect to measure its investment properties using either the fair value model or the cost model; the same model must be applied to all investment property. Under Canadian GAAP only the cost model is available. Under the fair value model, the investment property is carried at fair value on one line on the balance sheet with amortization expense no longer recorded. However, changes in fair value are reported through earnings in each reporting period. The cost model (as defined in IAS 16) closely resembles current Canadian GAAP, however, the fair values must still be disclosed in the notes to the financial statements. Under IFRS 1- First time adoption of IFRS, Killam may choose either valuation model for its properties prospectively and if the fair value model is chosen the resulting adjustment is recorded directly to retained earnings. It is management's intention to adopt the fair value model of accounting for investment properties. The Company has developed its real estate valuation strategy and process and is currently reviewing its model with its auditors. Management engaged an accredited national appraisal firm to evaluate all investment properties held as at January 1, 2010 and the fair value of investment properties at January 1, 2010 is approximately $890 million, $180 million, or 25%, higher than the carrying value under GAAP at January 1, 2010 of $710 million. Under IFRS, straight line rent, direct leasing costs and incentive balances are included in the carrying amount of income properties and the intangible assets and liabilities established under GAAP in connection with business combinations are no longer separately recognized.

2. Summary of Significant Accounting Policies (continued)

Killam's future income tax liability is expected to increase as a result of the increase in carrying value of the Company's investment properties. The initial adjustment to increase the value of the properties and the related change in future income tax liability will be recognized in opening retained earnings.

The adoption of IFRS will have a material impact on the Consolidated Balance Sheet. In particular, Killam's IFRS opening balance sheet will reflect the revaluation of income properties to fair value. In addition, Killam's intangible assets will be presented as a component of investment properties and not shown as a separate line item.

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

Business Combinations – IFRS 3 Revised

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

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

Income Taxes – IAS 12

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

Dollar amounts in thousands (except as noted)

3. Real Estate Properties

As at December 31,	**2010**		2009	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$ 97,160**	**$ —**	$ 85,691	$ —
Property under construction	**717**	**—**	—	—
Buildings	**594,136**	**63,308**	489,490	50,339
Roads and driveways	**71,189**	**12,752**	71,175	10,317
Water and sewer	**71,942**	**18,498**	71,924	15,087
Equipment	**8,363**	**2,560**	7,610	1,987
Suite renovations	**36,099**	**18,315**	32,356	14,337
Project improvements	**56,719**	**15,352**	48,521	11,305
Other assets	**9,938**	**3,531**	8,268	2,743
Intangibles	**5,776**	**4,269**	3,552	3,158
	$952,039	**$138,585**	$818,587	$109,273
Less: accumulated depreciation	**(138,585)**		(109,273)	
	$813,454		$709,314	

During the year ended December 31, 2010, the Company capitalized indirect costs of $1.0 million (2009 – $1.0 million) as part of its project improvement and suite renovation program.

4. Cash and Restricted Cash

Cash

As at December 31,	**2010**	2009
Cash	**$16,105**	$10,961

As at December 31, 2010, the Company's cash balances were held in bank accounts, which the Company has full access to, and do not include any instruments related to asset-backed securities or commercial paper programs.

Restricted Cash

As at December 31,	**2010**	2009
Real estate deposits and property tax reserves	**$3,874**	$5,330
Tenant security deposits	**2,155**	1,690
Restricted cash	**$6,029**	$7,020

Dollar amounts in thousands (except as noted)

5. Other Assets

As at December 31,	**2010**	2009
Prepaids	**$1,764**	$1,501
Inventory	**1,630**	2,117
Deferred charges	**121**	160
Goodwill	**4,500**	4,500
	$8,015	$8,278

Inventory relates to manufactured homes for which sales have not closed at year-end, as well as a number of stock homes. No inventory is pledged as collateral related to short-term financing. Goodwill presented above is the tax effect of the Company's acquisition of a property business through a share purchase transaction. The off-setting liability is presented in future income taxes.

6. Mortgages and Loans Payable

As at December 31,	**Maturities**	**Interest Rates**	**2010**	2009
Mortgages	Jan 2011 – Jan 2025	3.01% – 7.03%	**$569,560**	$497,816
Vendor financing	Oct 2011 – Jun 2016	0.00% – 9.20%	**4,689**	8,369
Total mortgages and loans			**$574,249**	$506,185
Less: deferred financing charges			**(7,359)**	(6,105)
			$566,890	$500,080

Mortgages are secured by a first charge on the properties of the Company and vendor mortgages are secured by either a second charge on the property and/or a general corporate guarantee. The weighted average mortgage rate at December 31, 2010 was 4.95% (December 31, 2009 – 5.2%).

Regular Principal and Maturity Repayments		Average Interest Rate by Year of Maturity	
Year	Amount	Balance December 31, 2010	Weighted Average Interest Rate
2011	$ 65,151	$50,584	5.55%
2012	63,390	51,883	5.25%
2013	83,364	77,365	4.89%
2014	120,655	137,464	4.70%
2015	119,553	124,959	4.79%
Thereafter	122,136	131,995	5.04%
	$574,249	$574,249	4.95%

Dollar amounts in thousands (except as noted)

7. Convertible Debentures

The Company's convertible subordinated debentures consist of the following:

Face Interest Rate %	Effective Interest Rate %	Conversion Price	2010		2009	
			Face Amount	**Balance**	Face Amount	Balance
6.50%	7.2%	$12.40	**$ —**	**$ —**	$42,200	$41,575
5.65%	7.3%	$13.40	**57,500**	**52,540**	—	—
			$57,500	**$52,540**	$42,200	$41,575
Less: Deferred financing charges				**(2,370)**		(753)
				$50,170		$40,822

The Company's $57.5 million convertible subordinated debentures are redeemable at the option of the Corporation after November 30, 2013 and on or before November 30, 2015 (provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price). After November 30, 2015 the debentures are redeemable at face value. Upon maturity on November 30, 2017, or redemption, the Company may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing). At the time of issuance, the fair value of the Company's obligation to make principal and interest payments was $52.5 million and the fair value of the holders' conversion option was $5.0 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component is calculated at 7.3%.

8. Subordinated Debentures

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

Face Interest Rate %	2010		2009	
	Face Amount	**Balance**	Face Amount	Balance
5.92%	**$ 2,500**	**$2,466**	$ 2,500	$2,451
6.06%	**2,500**	**2,465**	2,500	2,449
6.33%	**5,000**	**4,909**	5,000	4,869
	$10,000	**$9,840**	$10,000	$9,769
Less: Deferred financing charges		**(147)**		(217)
		$9,693		$9,552

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

9. Credit Facilities

The Company has credit facilities set out as follows:

I. A credit facility with a major financial institution that can be used to finance the Company's on-going acquisition program. The amount available under the revolving facility varies with the value of pledged assets, to a maximum of $15 million. The facility includes the option for a commitment increase, allowing Killam a one-time opportunity to increase the credit limit to $40 million. The interest rate on the debt is either prime plus 200 basis points on prime rate advances or 300 basis points over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at December 31, 2010 the Company had $1.7 million of assets pledged to the line and had a balance outstanding of $Nil. This facility expires in May 2011.

II. An operating facility which consists of a $1.0 million revolving demand facility for general business purposes, bearing interest at the lender's prime rate plus 1%. As at December 31, 2010, the Company had letters of credit totaling $0.4 million outstanding against this facility (December 31, 2009 - $0.4 million). The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

10. Capital Stock and Contributed Surplus

Dividend Reinvestment Plan

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

Normal Course Issuer Bid

In August 2009, the Company announced that the Toronto Stock Exchange (the "TSX") had accepted Killam's notice of intention to renew its normal course issuer bid ("NCIB") for its common shares. Under the normal course issuer bid, Killam was able to acquire up to 3.1 million common shares commencing on August 22, 2009, and ending on August 21, 2010. All purchases of common shares were made through the facilities of the TSX at the market price of the shares at the time of acquisition. Daily repurchases by Killam were limited to 32,171 common shares, other than block purchase exceptions. Any shares acquired were cancelled. The Company has not renewed its NCIB.

For the year ended December 31, 2010 no common shares were purchased under the NCIB program. For the year ended December 31, 2009, 53,600 common shares were purchased and cancelled. The shares were purchased at an average price of $5.28 per share. The aggregate cost of the common shares purchased and cancelled for year ended December 31, 2009 was $0.3 million was recorded as a charge against share capital for the average carrying value of the common shares with the remainder charged against retained earnings and contributed surplus.

Dollar amounts in thousands (except as noted)

10. Capital Stock and Contributed Surplus (continued)

Capital Stock

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

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

For the year ended December 31,	**2010**		2009	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of year	**38,518,765**	**$243,205**	34,027,582	$218,057
Issued for cash (i)	**6,210,000**	**48,153**	4,255,000	23,350
Stock options exercised	**97,000**	**553**	—	—
Dividend reinvestment plan (ii)	**145,801**	**1,335**	204,510	1,172
Issued on property acquisitions (iii)	**—**	**—**	85,273	598
Normal course issuer bid	**—**	**—**	(53,600)	(343)
Tax benefit of issuance costs	**—**	**715**	—	371
Balance, end of year	**44,971,566**	**$293,961**	38,518,765	$243,205

(i) Net of issue costs of $2,458 (2009 –$1,300)
(ii) Net of issue costs of $10 (2009 – $7)
(iii) Net of issue costs of $Nil (2009 – $3)

Contributed Surplus

For the year ended December 31,	**2010**	2009
Balance, beginning of year	**$1,842**	$1,332
Stock options expensed	**500**	450
Stock options exercised	**(52)**	—
Normal course issuer bid	**—**	60
Balance, end of year	**$2,290**	$1,842

Dollar amounts in thousands (except as noted)

11. Stock Options and Warrants

Under the terms of the stock option plan:

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

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

(iii) shares to be optioned shall not exceed 2,125,000 (December 31, 2009 – 2,125,000) and the total number of shares to be optioned to any eligible participant shall not exceed 10% of the issued and outstanding shares of the class as at the date such option is granted;

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

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

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

For the year ended December 31,	**2010**		2009	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**1,331,875**	**$7.46**	926,875	$8.40
Granted	**657,500**	**8.16**	405,000	5.32
Exercised	**(97,000)**	**5.38**	—	—
Forfeited	**(420,750)**	**8.20**	—	—
Outstanding, end of year	**1,471,625**	**$7.70**	1,331,875	$7.46

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

	2010	2009
Expected volatility	**28.2%**	26.5%
Risk-free interest rate	**2.55%**	2.00%
Expected lives	**5 years**	5 years
Expected dividend yield	**6.9%**	10.0%

Dollar amounts in thousands (except as noted)

11. Stock Options and Warrants (continued)

The following table summarizes the stock options outstanding:

As at December 31,	2010			2009		
Exercise Prices	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$5.32	**310,000**	**3.33 years**	**114,250**	405,000	4.33 years	128,250
$7.94	**40,000**	**1.54 years**	**8,292**	40,000	2.54 years	6,292
$8.03	**137,500**	**2.42 years**	**98,552**	137,500	3.42 years	71,048
$8.06	**137,500**	**1.63 years**	**94,646**	137,500	2.63 years	67,146
$8.11	**1,250**	**2.09 years**	**731**	1,250	3.09 years	479
$8.16	**655,500**	**4.42 years**	**206,206**	—	—	—
$8.20	**—**	**—**	**—**	420,750	0.42 years	393,816
$9.40	**137,500**	**0.61 years**	**120,657**	137,500	1.61 years	93,157
$9.60	**48,625**	**0.55 years**	**44,233**	48,625	1.55 years	34,481
$9.92	**2,500**	**0.50 years**	**2,240**	2,500	1.50 years	1,744
$10.04	**1,250**	**1.25 years**	**929**	1,250	2.25 years	681
	1,471,625		**690,736**	1,331,875		797,094

The exercisable options had a weighted average exercise price of $7.97 at December 31, 2010 ($7.91 as at December 31, 2009).

Warrants

The Company has granted warrants in connection with the subordinated debentures issued during 2006 (see note 8). The following table summarizes the warrants outstanding:

As at December 31,	2010		2009	
Exercise price	**Number of Warrants Outstanding**	**Remaining Contractual Life**	Number of Warrants Outstanding	Remaining Contractual Life
$14.40	**347,222**	**2.01 years**	347,222	3.01 years
$15.20	**328,947**	**2.01 years**	328,947	3.01 years
$12.24	**816,993**	**2.01 years**	816,993	3.01 years
	1,493,162		1,493,162	

Dollar amounts in thousands (except as noted)

12. Income Taxes

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

For the year ended December 31,	**2010**		2009	
Net income (loss) before income taxes	**$210**		$(2,673)	
Income tax (expense) recovery at statutory rates	**$(68)**	**(32.2)%**	$897	33.6%
Non-deductible share compensation	**(116)**	**(55.3)%**	(151)	(5.6)%
Non-deductible debenture interest	**(154)**	**(73.4)%**	(124)	(4.6)%
Other differences	**(2)**	**(1.0)%**	208	7.8%
Future tax (expense) recovery	**$(340)**	**(161.9)%**	$830	31.1%

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

As at December 31,	**2010**	2009
Share issue costs	**$1,053**	$ 906
Loss carryforwards	**3,613**	3,541
Fair value of hedges	**—**	6
Deferred financing costs	**(1,043)**	(71)
Real estate properties	**(2,614)**	(3,742)
Net future income tax asset	**$1,009**	$ 640

13. Per Share Information

The following are the weighted average number of shares outstanding for the years ended December 31, 2010 and 2009. The fully diluted amounts shown below exclude the convertible debentures as they are considered anti-dilutive as well as stock options and warrants whose exercise price exceeded the average market price for the period.

For the year ended December 31,	**2010**	2009
Basic	**43,393,351**	36,247,130
Fully diluted	**43,724,024**	36,340,763

Dollar amounts in thousands (except as noted)

14. Segmented Information

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

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

As at and for the year ended December 31, 2010

	Apartments	**Manufactured Home Communities**	**Total**
Rental revenue	**$88,114**	**$24,613**	**$112,727**
Other operating income	**258**	**294**	**552**
	88,372	**24,907**	**113,279**
Property operating expenses	**(35,131)**	**(8,578)**	**(43,709)**
Income from property operations	**$53,241**	**$16,329**	**$69,570**
Capital assets (net)	**$650,992**	**$161,290**	**$812,282**
Corporate assets (net)			**1,172**
Total capital assets (net)			**$813,454**
Capital expenditures	**$10,359**	**$5,062**	**$15,421**
Corporate			**202**
Total			**$15,623**

As at and for the year ended December 31, 2009

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

Dollar amounts in thousands (except as noted)

15. Financial Risk Management Objectives and Policies

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

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

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

(i) ***Interest rate risk***

Interest rate risk is minimized through management's periodic review of its mortgage portfolio. If market conditions warrant, the Company will attempt to renegotiate its existing debt to take advantage of lower interest rates. The Company will also structure its debt so as to stagger the debt maturities, thereby minimizing the Company's exposure to interest rate fluctuations. As at December 31, 2010 no mortgages or vendor debt have floating interest rates (December 31, 2009 – Nil).

An annualized 1% change in the interest rate on Killam's entire mortgage and vendor debt at December 31, 2010 would affect financing costs by approximately $5.7 million per year. However, only $50.6 million of Killam's mortgage and vendor debt matures in the next twelve months and that same interest rate change would impact Killam by $0.5 million per year.

(ii) ***Credit risk***

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

As at December 31,	**2010**	2009
0–30 days	**$ 411**	$ 25
31–60 days	**80**	296
61–90 days	**5**	40
Over 90 days	**117**	103
Total tenant receivables	**613**	464
Other receivables	**1,327**	863
Insurance receivable	**2,921**	1,349
Total	**$4,861**	$2,676

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

Dollar amounts in thousands (except as noted)

15. Financial Risk Management Objectives and Policies (continued)

(iii) ***Liquidity risk***

The Company is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. Senior management manages the Company's cash resources based on financial forecasts and anticipated cash flows. The maturities of the Company's long-term financial liabilities are set out in Notes 6 to 8 of the consolidated financial statements. The Company structures its financings so as to stagger the maturities of its debt, thereby minimizing the Company's exposure to liquidity risk in any one year. In addition, the Company's apartments qualify for Canada Mortgage and Housing Corporation (CMHC) insured debt, reducing the refinancing risk on mortgage maturities. As at December 31, 2010 55.6% of the apartment mortgages were CMHC insured. The Company's MHCs do not qualify for CMHC insured debt, however, they continue to have access to mortgage debt. Management does not expect to be faced with liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector.

During the year ended December 31, 2010, the Company refinanced $37.7 million of maturing apartment mortgages with new mortgages totaling $55.2 million for net proceeds of $17.5 million and $14.3 million of maturing MHC mortgages with new mortgages totaling $18.3 million for net proceeds of $4.0 million.

Capital Management

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

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

As at December 31,	**2010**	2009
Mortgages and vendor financing	**$574,249**	$506,185
Convertible debentures	**52,540**	41,575
Subordinated debentures	**9,840**	9,769
Total Gross Debt	**$636,629**	$557,529
Totals assets	**$849,571**	$739,373
Plus: Deferred financing re-allocated	**9,876**	7,076
Plus: Accumulated depreciation	**138,585**	109,273
Gross Book Value (GBV)	**$998,032**	$855,722
Total Gross Debt as a Percentage of GBV	**63.8%**	65.2%

Dollar amounts in thousands (except as noted)

15. Financial Risk Management Objectives and Policies (continued)

Fair Value

Financial instruments are defined as a contractual right or obligation to receive or deliver cash or another financial asset. The fair values of the Company's financial instruments, except for mortgages and loans payable, approximate their recorded values at December 31, 2010 and 2009 due to their short-term nature and or the credit terms of those instruments.

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

Classification	Subsequent Measurement	2010		2009	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Held for Trading:					
Cash and cash equivalents (a)	Fair Value (Level 1)	**$16,105**	**$16,105**	$10,961	$10,961
Derivative instrument liability (a)	Fair Value (Level 1)	**$ —**	**$ —**	$ —	$(21)
Loans and Receivables:					
Receivables and other (b)	Amortized cost	**$10,602**	**$10,602**	$9,696	$9,696
Other Financial Liabilities:					
Accounts payable and other (b)	Amortized cost	**$14,182**	**$14,182**	$11,717	$11,717
Mortgages (c)	Amortized cost	**$574,249**	**$613,234**	$506,185	$510,300
Convertible debentures (c)	Amortized cost	**$52,540**	**$53,795**	$41,575	$43,654
Subordinated debentures (c)	Amortized cost	**$9,840**	**$9,845**	$9,769	$9,717

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

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

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

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

(a) Cash and cash equivalents and derivative instrument liabilities are classified as held for trading and carried at their fair values. The Company recorded a loss of $0.03 million during 2010 against net earnings related to the settlement of commodity swaps (2009 – loss of $1.0 million).

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

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

Dollar amounts in thousands (except as noted)

16. Capital Commitment

On September 28, 2010, the Company announced the start of construction of Charlotte Court, a two phase apartment complex in Charlottetown, Prince Edward Island. Phase I of the 98-unit apartment complex will consist of 49 units, which are expected to be ready for occupancy in July 2011. Phase II will consist of another 49 units, expected to be ready for occupancy in June 2012. Construction on Phase I began during 2010 and Killam expects total cost of construction to be approximately $4.4 million. The summary below highlights expenditures to December 31, 2010;

Phase I commitment	$4,337
Work completed to date and paid	(675)
Holdback payable	(113)
Remaining capital commitment	$3,549

17. Related Party Transactions

Killam has contracted APM Construction Services Inc. ("APM") to act as project manager on the Charlotte Court construction project as set out in Note 16. APM is an entity controlled by a director of Killam. APM will be paid an industry standard management fee of approximately 4% of the construction costs. As of December 31, 2010 Killam has paid APM 4% of the $675 construction costs to December 31, 2010.

During the year ended December 31, 2010, the Company paid real estate commissions of $0.1 million to a company controlled by a Director (2009 – $Nil). There is no continuing contractual obligation to use the service of the related party.

18. Subsequent Events

During the period January 1 to February 26, 2011 the Company has refinanced $2.6 million of maturing apartment debt for net proceeds of $0.4 million. The previous weighted average interest rate was 5.08% and the interest rate on the new debt is 3.56%. In addition, the Company placed a $5.0 million mortgage at a rate of 3.52% on an apartment property, purchased in 2010 with cash. The Company has placed a $1.2 million mortgage on an MHC at an interest rate of 5.11%. The previous $0.9 million mortgage on the property was paid out in late 2010 and had an interest rate of 5.46%.

On January 14, 2011 and February 11, 2011, the Company announced dividends of $0.046668 per share, payable on February 15, 2011 and March 15, 2011 respectively, to shareholders of record on January 31, 2011 and February 28, 2011 respectively.

FIVE YEAR SUMMARY

In thousands (except per share data)

Statement of Earnings Information	2010	2009	2008	2007	2006
Income from Property Operations	**$69,570**	$62,606	$56,458	$49,967	$41,348
Income from Home Sales	**$403**	$234	$1,172	$488	$131
Corporate Revenue	**$547**	$424	$763	$1,156	$509
Interest Costs	**$31,605**	$30,699	$29,999	$27,596	$24,756
General and Administrative	**$7,441**	$6,732	$6,247	$5,548	$4,506
(Gain) Loss on Debt Settlement	**$ —**	($638)	$ —	$ —	$437
Depreciation and Amortization	**$31,044**	$28,831	$28,712	$25,664	$17,913
Provincial Capital Tax	**$220**	$313	$401	$478	$333
Future Tax (Expense) Recovery	**($340)**	$830	$1,958	$2,270	$2,200
Net Loss	**($130)**	($1,843)	($5,008)	($5,405)	($3,757)
Balance Sheet Information					
Capital Assets (net)	**$813,454**	$709,314	$718,550	$694,652	$567,099
Other Assets	**$36,117**	$30,059	$20,118	$29,028	$20,280
Total Assets	**$849,571**	$739,373	$738,668	$723,680	$587,379
Mortgage Debt	**$566,890**	$500,080	$484,092	$458,459	$389,278
Other Liabilities	**$74,333**	$62,091	$81,383	$71,337	$90,448
Shareholders' Equity	**$208,348**	$177,202	$173,193	$193,884	$107,653
Total Liabilities and Shareholders' Equity	**$849,571**	$739,373	$738,668	$723,680	$587,379
Statement of Cash Flow Information					
Cash Provided by Operating Activities	**$33,283**	$26,226	$22,364	$18,412	$10,278
Cash Provided by (Used in) Financing Activities	**$69,724**	($300)	$4,862	$116,358	$108,279
Cash Used in Investing Activities	**($97,863)**	($19,299)	($37,527)	($123,164)	($116,740)
Funds From Operations (FFO)	**$32,093**	$26,339	$22,461	$18,696	$12,498
Share Information					
Weighted Average Number of Shares – Basic	**43,393**	36,247	33,604	29,653	20,952
Weighted Average Number of Shares – Fully Diluted	**43,724**	36,341	33,630	29,904	21,424
Shares Outstanding at December 31	**44,972**	38,519	34,028	33,393	22,063
Per Share Information					
FFO per Share – Basic	**$0.74**	$0.73	$0.67	$0.63	$0.60
FFO per Share – Fully Diluted	**$0.73**	$0.72	$0.67	$0.63	$0.58
Net Loss per Share – Basic	**($0.00)**	($0.05)	($0.15)	($0.18)	($0.18)
Unit Price at December 31	**$10.45**	$8.80	$4.47	$9.21	$10.12

CORPORATE INFORMATION

Board of Directors

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

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

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

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

Arthur G. Lloyd
Executive Vice President, Western North America, SITQ
Calgary, Alberta

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

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

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

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

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

Executive Team

Philip Fraser
President & Chief Executive Officer

Robert Richardson, FCA
Executive Vice President & Chief Financial Officer

Ruth Buckle-McIntosh
Vice President, Property Management

Pamela Crowell
Vice President, Property Management (MHCs)

Keith Foster, CA
Vice President, Finance

Jeremy Jackson
Vice President, Marketing

Michael McLean
Vice President, Development

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

Ronald Barron
Corporate Secretary

Investor Inquiries

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

Auditors

Ernst & Young, LLP
Halifax, NS

Solicitors

Bennett Jones, LLP
Calgary, AB

Stewart McKelvey
Halifax, NS

Registrar and Transfer Agent

Computershare Investor Services Inc.
Suite 2008, Purdy's Wharf, Tower II
Halifax, NS B3J 3R7

Share Listing

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

Monthly Dividend

January 2010 - December 2010
$0.046668 per share

Head Office

Halifax, NS
Suite 100
3700 Kempt Road
Halifax, NS B3K 4X8
Tel: 902.453.9000
Fax: 902.455.4525

Regional Offices

Moncton, NB
Suite 207
1111 Main Street
Moncton, NB E1C 1H3
Tel: 506.857.0680
Fax: 506.857.0620

Saint John, NB
Suite 101
55 Magazine Street
Saint John, NB E2K 2S5
Tel: 506.652.7368
Fax: 506.696.6005

Fredericton, NB
181 Parkside Drive
Fredericton, NB E3B 5L7
Tel: 506.459.5959
Fax: 506.455.5959

Charlottetown, PEI
19B Horton Drive
Stratford, PE C1B 2B7
Tel: 902.566.2499
Fax: 902.569.0292

Trenton, ON
63 Whites Road
PO Box 4147
RR#1 Trenton, ON K8V 5P5
Tel: 613.392.8407
Fax: 613.392.8497

ANNUAL & SPECIAL MEETING

The Annual and Special Meeting of Shareholders will be held on Wednesday, May 11, 2011 at 2:00 pm Atlantic Time at the Four Points Sheraton, 1496 Hollis Street, Halifax, Nova Scotia

KILLAM PROPERTIES INC

3700 Kempt Road, Halifax, NS B3K 4X8
www.killamproperties.com | tsx: kmp