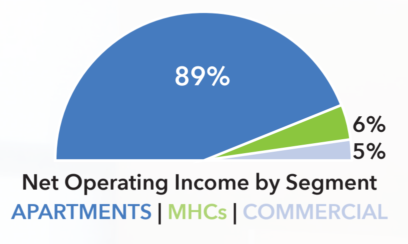
ANNUAL REPORT 2020

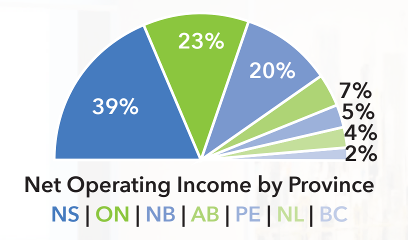
Killam APARTMENT REIT

About Killam

PROFILE

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





MISSION

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

CORE VALUES

- Build Community
- Do the Right Thing
- Creative Solutions
- Curb Appeal
- Strong Customer Relationships

STRATEGY

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

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

The Kay, Mississauga

The Kay, Mississauga

2020 Highlights

2.3%
Same Property NOI Growth

2.0%
Growth in FFO per Unit

3.7%
Growth in AFFO per Unit

44.6%
Debt as a Percentage of Total Assets as at December 31, 2020

$211M
in Acquisitions Completed

$76M
Invested in Developments

$47M
Fair Value Gains on Investment Properties

32%
Improvement in ESG Score[1]

(1) In second annual GRESB Submission

Financial and Operating Highlights

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

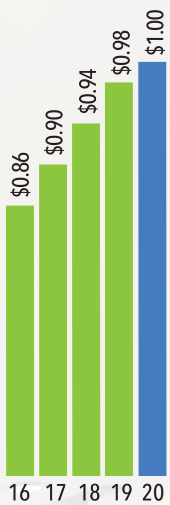
As at and for the years ended	2020	2019	2018
Operations			
Property revenue	$261,690	$242,164	$215,959
Net operating income (NOI)	$164,662	$152,336	$135,712
Net income	$146,040	$283,525	$175,171
Funds from operations (FFO) (1)	$104,678	$93,884	$81,808
FFO per unit (diluted)	$1.00	$0.98	$0.94
Adjusted funds from operations (AFFO) (2)	$86,816	$76,768	$66,275
AFFO per unit (diluted)	$0.83	$0.80	$0.76
Distributions declared per unit	$0.68	$0.66	$0.64
AFFO payout ratio	82%	82%	84%
Financial Position			
Total assets	$3,776,560	$3,380,100	$2,824,406
Total liabilities	$2,008,302	$1,777,773	$1,655,456
Total equity	$1,768,258	$1,602,367	$1,168,950
Units outstanding (3)	107,314	102,017	90,212
Total debt as a percent of total assets	44.6%	43.4%	49.8%
Interest coverage ratio	3.36x	3.20x	3.22x
Normalized debt to EBITDA	10.78x	10.15x	10.62x
Portfolio Information			
Apartment units	17,048	16,325	15,883
MHC sites	5,875	5,786	5,427
Commercial square footage	750,000	739,000	551,000
Average rent per apartment unit	$1,184	$1,126	$1,076
Average rent per MHC site	$260	$261	$254

(1) FFO and applicable per unit amounts are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, interest expense related to lease liabilities, insurance proceeds and non-controlling interest. A reconciliation between net income and FFO is included on page 49 of this annual report.

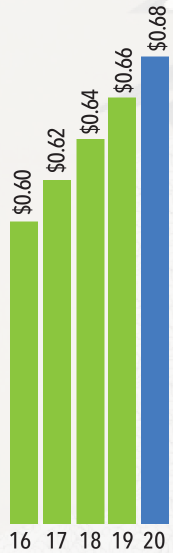
(2) AFFO and applicable per unit amounts and payout ratios are calculated by Killam as FFO less an allowance for maintenance capital expenditures, commercial leasing costs and straight-line commercial rents. A reconciliation from FFO to AFFO is included on page 51, and the calculation of the maintenance capex reserve is included on page 50.

(3) Units outstanding at December 31, 2020 include 103,212,327 REIT units and 4,101,520 exchangeable units.

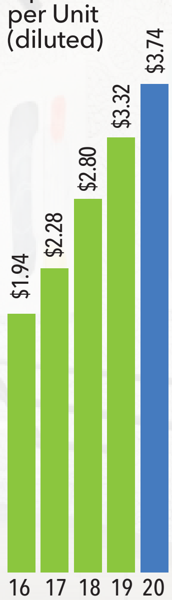
Civic 66, Kitchener



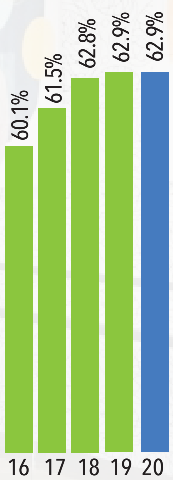
Funds from Operations per Unit (diluted)



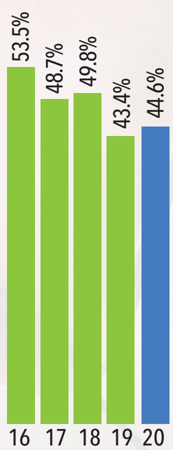
Distribution per Unit



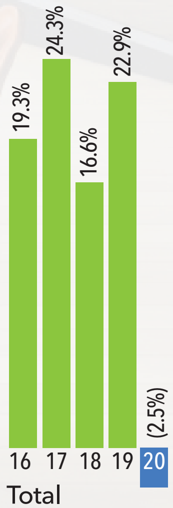
Value of Real Estate Portfolio ($ billions)



Operating Margin %



Debt as a % of Total Assets



Total Unitholder Return

2020 Performance Summary and 2021 Strategic Targets

GROW SAME PROPERTY NOI
2020 Target: 3% to 5%

2020 Performance: 2.3%

2021 Target: >2%, subject to COVID-19 related restrictions being lifted by Q3-2021.

EXPAND THE PORTFOLIO THROUGH ACQUISITIONS
2020 Target: Acquire a minimum of $175M.

2020 Performance: Acquired $211M.

2021 Target: Acquire a minimum of $100M.

DIVERSIFY GEOGRAPHICALLY
2020 Target: Earn >32% of 2020 NOI outside Atlantic Canada.

2020 Performance: 32% of 2020 NOI was from outside Atlantic Canada.

2021 Target: Earn >32% of 2021 NOI outside Atlantic Canada.

STRENGTHEN THE BALANCE SHEET
2020 Target: Maintain debt as a % of assets ratio below 47%.

2020 Performance: 44.6% as of December 31, 2020.

2021 Target: Maintain debt as a % of assets ratio below 47%.

DEVELOP HIGH-QUALITY PROPERTIES
2020 Target: Complete Shorefront and start two additional projects.

2020 Performance: Completed Shorefront, broke ground on Civic 66 and acquired 50% interest in the active Luma development.

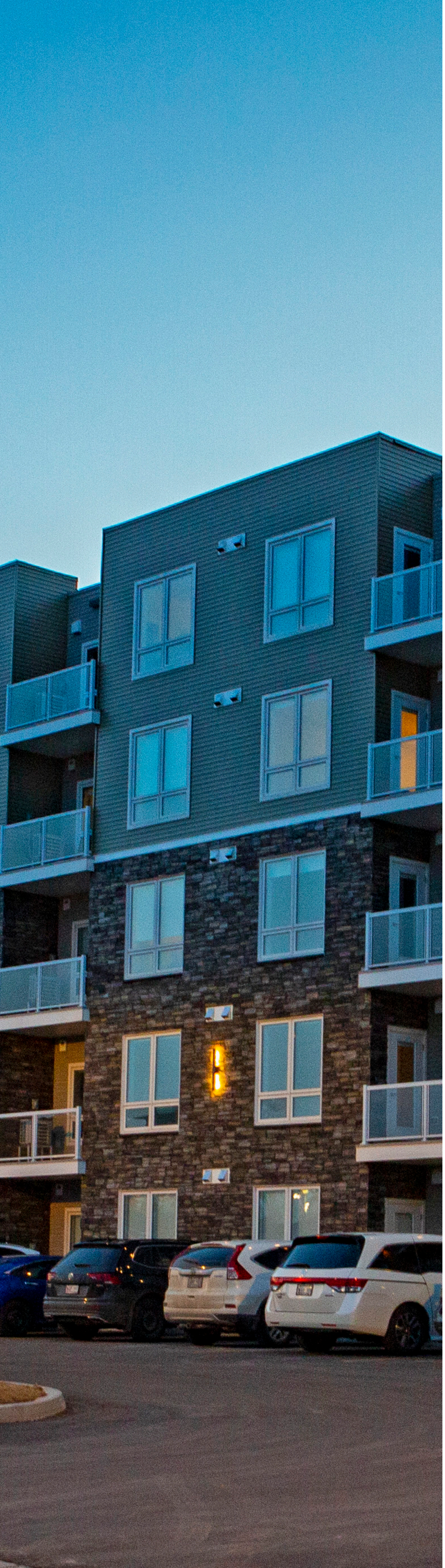
2021 Target: Complete 166 units (two buildings) and break ground on two additional developments (>150 units).

IMPROVE SUSTAINABILITY
2020 Target: Increase Killam's GRESB rating by 15 points.

2020 Performance: Realized a 15-point or 32% improvement.

2021 Target: Minimum $5M investment in energy initiatives to reduce Killam's carbon footprint.

Shorefront, Charlottetown



Letter to Unitholders

Dear Unitholder,

I am pleased to report Killam's financial and operating highlights for 2020. Although it was an unprecedented year with many uncertainties, I am very proud of our 700 employees who worked diligently and adapted to the COVID-19 pandemic, keeping our tenants safe and informed.

The multi-family rental business remained resilient during the pandemic. Despite seeing pockets of softness given a decrease in immigration, a shift to work from home and on-line university classes for students, demand overall remained strong for quality rental product across the country. We achieved 2.3% same property net operating income growth and earned $1.00 per unit FFO, a 2% increase from $0.98 per unit in 2019.

Our strategy and commitment to the long-term viability of our core markets remains unchanged. We are committed to growing Killam's value and long-term profitability by concentrating on three key areas of growth:

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

Investing in our Existing Portfolio

Increasing earnings from our existing portfolio is a central component of our strategy. We invest in revenue-enhancing and expense-saving initiatives that deliver excellent returns on investment and keep our tenants comfortable and pleased to call their Killam property home.

> Killam's same property portfolio achieved net operating income growth of 2.3% in 2020.

Overall, Killam's same property portfolio achieved net operating income growth of 2.3% in 2020.

Our suite renovation program is an important and growing initiative that meets the market's demand for modern units. We have fine tuned the process of repositioning units over the past three years to optimize the upgrade and minimize the downtime for renovation work, in order to provide our residents with the best finishes based on appeal, functionality, and durability. We do this in a responsible way, considering the current financial demands of our tenants, our communities, and the global environment. We upgrade only those units that are vacant and do not engage in any programs to influence unit turn through aggressive rent hikes or incentive offerings.

We have identified over 5,000 units in our portfolio that can benefit from this renovation program and will invest in these units as they become vacant over the next eight to ten years.

Market demand for these newly renovated units remained healthy across the portfolio during the year. In 2020 we repositioned 495 units, representing approximately 10% of the units that turned, and 3% of our total portfolio.

Portfolio Growth Through Acquisitions

We completed $211 million in acquisitions and continued to execute on our strategy of increasing the percentage of earnings generated outside Atlantic Canada. We purchased two properties in Victoria, BC, for $114 million, totaling 315 units. This enabled Killam to enter the strong Victoria market, and to have the presence coast-to-coast. We also expanded our presence in the Moncton market by acquiring two newly built properties, adding 271 units ($72.6 million) to our portfolio. Acquisitions in 2020 also included $9.8 million of land for future development, including a 50% interest in the land for the Luma development with RioCan in Ottawa.

$114 million in acquisitions in Victoria, BC, expanding our portfolio coast-to-coast.

Developments Driving Value

Development remains an important part of our growth strategy, and one that distinguishes us from our peers. Killam completed one development in 2020, Shorefront, a 78-unit building located in Charlottetown, and we finished the year with six active developments underway. Our development portfolio is strategic, with current projects in Mississauga, Ottawa, Kitchener, Charlottetown and Halifax. We are excited to complete and lease up these new buildings over the next two years. With a total projected investment of over $220 million and 523 units, these properties will bring meaningful growth to Killam's portfolio.

With developments underway of $220 million representing 523 units, these properties will bring meaningful growth to Killam's portfolio.

Two projects, Nolan Hill (233 units), in Calgary, and 10 Harley (38 units), in Charlottetown, were completed in Q1 2021 and The Kay (127 units), in Mississauga and Latitude (209 units), in Ottawa should be completed in late 2021.

Part of the Affordable Housing Solution

The need for safe and affordable housing has been highlighted by many Canadians during the past year. Killam takes its role as a responsible corporate citizen seriously and is committed to being a contributor to the affordable housing solution. Our diverse portfolio offers a range of product in each of our markets, including longstanding proprieties that provide clean, safe and affordable housing options. Killam is also an active partner with many non-profit housing and government agencies, such as the YWCA, urban housing initiatives, and centre for addiction and mental health, to deliver more than 750 subsidized units in our communities.

We recently expanded our portfolio of affordable units with the completion of the Nolan Hill development and utilized CMHC's Rental construction financing initiative. This project will provide quality, affordable living options for 78 households. We look forward to pursuing additional affordable housing opportunities across our core markets.

Commitment to Sustainability

Other key operating initiatives include the active management of expenses to optimize net operating income in conjunction with sustainability. I am exceptionally proud of the enhancements to Killam's sustainability efforts over the past year as well as the advancement of Killam's ESG-related reporting frameworks and disclosure. Killam has a long history of investing in energy initiatives, and we are committed to position Killam as a leader in sustainability amongst our multi-residential real estate peers. We made our second GRESB ESG submission in 2020 and achieved a 32% improvement over our initial submission in 2019.

We achieved a 32% improvement in our 2020 GRESB submission.

We are being bold in our environmental targets, including reducing our greenhouse gas emissions by 15% by 2030, and producing a minimum of 10% of Killam's electricity needs through renewable sources by 2025. Adjustments to our sustainability targets will likely occur with more information and as technology evolves as we work to align ourselves with the Paris Climate Accord in the coming years to ultimately achieve carbon neutrality. Please refer to Killam's comprehensive ESG report on our website to learn about the many sustainability highlights and achievements from 2020, as well as our longer-term goals.

Innovative Culture

Our people are the backbone of all our successes at Killam. Our core values are the foundation of our culture, which emphasize our inclusive and innovative work environment. Killam's exceptional culture has been publicly recognized; Killam was named one of Canada's Most Admired Corporate Cultures for 2020, a distinction which is held for a three-year period. We have also been honoured with several other company culture, top employer and employee recommended workplace awards in the past year. Based on our employee satisfaction survey conducted during 2020, 87% of employees believe Killam enables a culture of diversity. Further, to strengthen our diversity and inclusion program at Killam, we have partnered with the Canadian Centre for Diversity & Inclusion. One hundred percent of our management team completed D&I training in 2020, with much awareness and learning to continue in the coming years.

Our people are the backbone of our successes at Killam.

Embracing Technology

We continue to embrace change and invest in technology across the organization. The pandemic has highlighted the value of our past investments in remote working technology and enabled us to deftly adapt to working from home. In addition, our expanded use of data analytics and on-line customer service offerings are changing how we do business in very positive ways. We will continue to invest capital and time to further evolve our processes. I am confident this will lead to efficiencies, expense management and earnings growth.

I am especially excited about our technology investments related to energy efficiencies at our properties. Late last year we installed solar photovoltaic (PV) panels at 11 properties in PEI and Halifax, and we have more to come in 2021. Geothermal heating and PV panels are becoming the norm at our new developments, as is unit-level metered water. These investments are the future of apartment developments, and will lead to efficient, low emission and high-margin properties.

2021 Outlook

As our provincial governments roll out plans for the distribution of vaccines across the country, we remain focused on the health and safety of our tenants, employees and the communities in which we operate. We are optimistic that we are on the road to reopening the economy and the long-term fundamentals for our business are unchanged. However, we continue to keep a close watch on potential challenges to our business including increased regulatory risks, retaining and attracting top-notch talent, market volatility, and a changing investor base.

In closing, I would like to thank you for your interest and investment in Killam. Killam's annual Unitholders' meeting will be held on May 7th, 2021, at 10:30 AM Atlantic Time at 3700 Kempt Road, Suite 100, Halifax, Nova Scotia. I encourage you to join via webcast, if possible.

Yours truly,

Philip Fraser
President & CEO

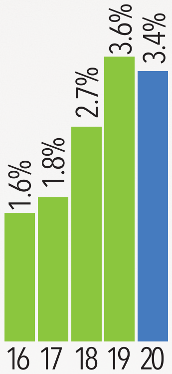
GROWING EARNINGS FROM KILLAM'S EXISTING PORTFOLIO

Increasing earnings from its existing portfolio is an important part of Killam's strategy to maximize long-term value for its unitholders. With population growth and demand out-pacing the housing supply in many of our core markets over the past few years, Killam started 2020 with both record-high occupancy and rental rate growth.

Despite headwinds caused by the COVID-19 pandemic, Killam's core markets continued their positive momentum in 2020. Killam recorded 2.0% revenue growth from its same property portfolio.

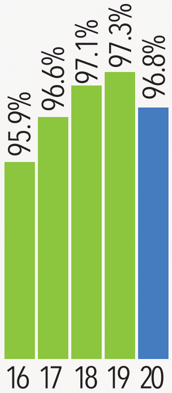
Impacts of COVID-19 include lost revenue due to delayed rent increases related to rent increase suspensions during Q2, reduced activity at Killam's nine seasonal MHCs due to delayed openings and travel restrictions, lower commercial rent following participation in the Canadian Emergency Commercial Rent Assistance program and increased compensation for Killam's front-line workers. Despite these challenges, expenses increased modestly, resulting in 2.3% overall same property NOI growth.

Killam's respositioning program continues to expand, upgrading 495 suites in 2020. The program is meeting the market demand for new high-quality finishes across its portfolio. By fine tuning the process to optimize the upgrades and minimize the downtime for renovation work, Killam provides its residents with the best finishes based on appeal, functionality, and durability.



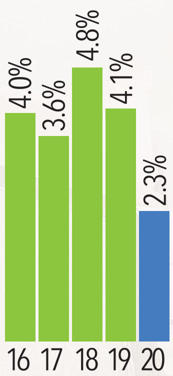
Same Property Average Rental Rate Growth

Despite COVID-19 related restrictions, rental rate growth was a healthy 3.4%. Continued rental rate growth is due to strong market fundamentals and Killam's revenue-enhancing programs.



Same Property Apartment Occupancy

Killam's same property apartment portfolio recorded solid occupancy of 96.8% in 2020. Occupancy levels continue to be particularly strong in our suburban markets and Maritime cities during COVID-19.



Same Property Net Operating Income Growth

Same property NOI increased 2.3% in 2020 due to solid revenue growth, and expenses increased by only 1.4%. Killam achieved a 20 basis point improvement in its operating margin to a record high of 63.5%.

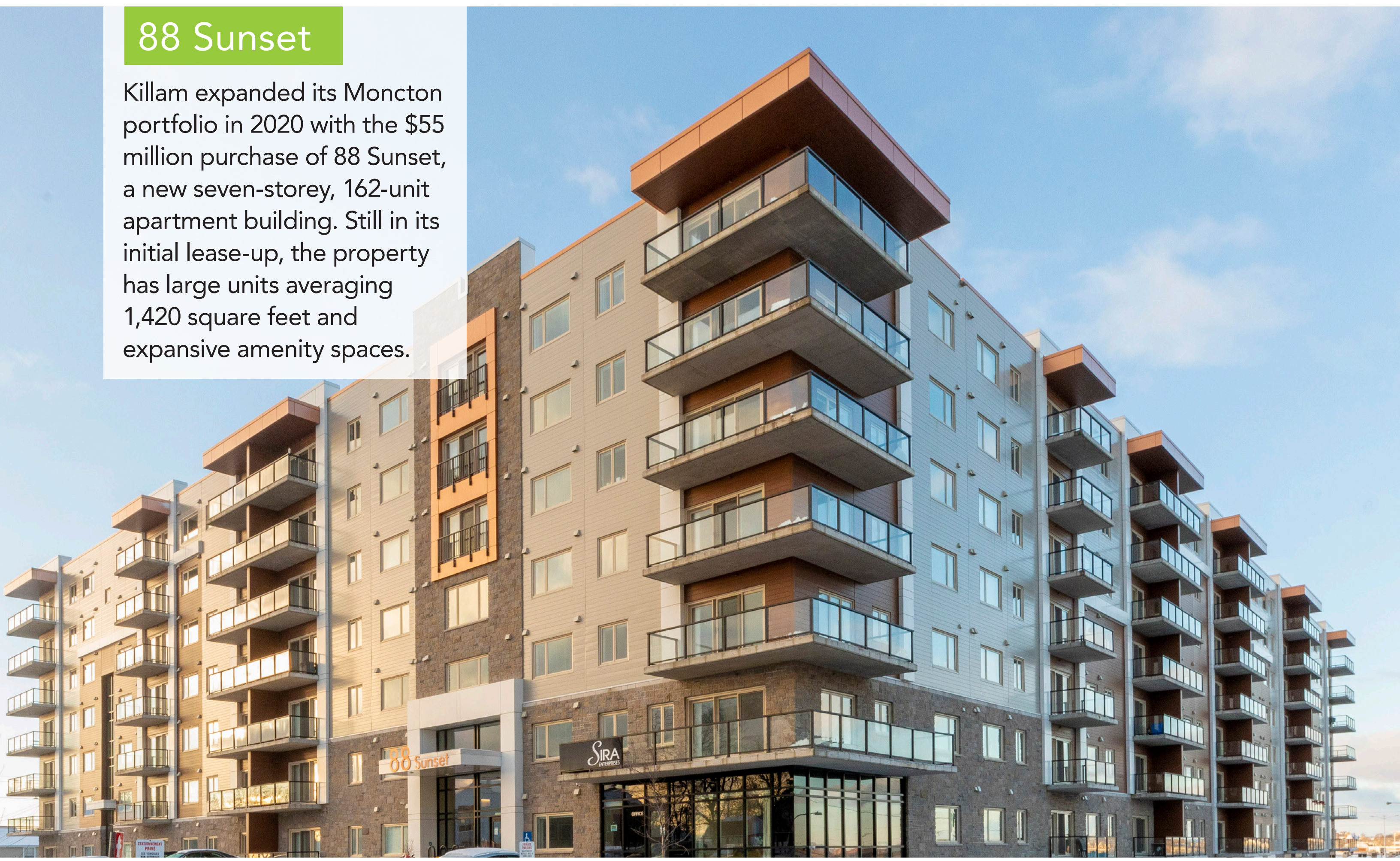
40 Weldon, Moncton

Suite upgrades are an important part of Killam's value creation and growth strategy. This is a 63-unit property in downtown Moncton that was built in 1995 and had dated finishes. By replacing the flooring and updating the kitchens and bathrooms, the product offering for this building changed, and Killam realized an average rental increase of 22%, representing an 11% return on its $30,000 per unit investment. This suite was the winner of the CFAA's best unit renovation for 2020.

GROWING EARNINGS THROUGH ACQUISITIONS

Acquisitions have always been an integral part of our growth strategy. In 2020, we acquired $211 million of assets, adding 650 apartment units to our portfolio. We entered the British Columbia apartment market for the first time, acquiring 315 units in Victoria, and further expanded our presence in Halifax and Moncton. Killam also acquired an MHC containing 89 sites, a small commercial property and added to its portfolio of development land.

Killam continued to execute its geographic diversification strategy with more than half of the equity deployed in 2020 in British Columbia and Ontario. During the year, 32% of Killam's NOI was generated outside Atlantic Canada, up from 30% in 2019.



88 Sunset

Killam expanded its Moncton portfolio in 2020 with the $55 million purchase of 88 Sunset, a new seven-storey, 162-unit apartment building. Still in its initial lease-up, the property has large units averaging 1,420 square feet and expansive amenity spaces.

Christie Point

Christie Point Apartments in Greater Victoria was acquired for $54 million and features 161 units on a waterfront peninsula with over 6,000 feet of direct water frontage. This site includes redevelopment potential for an additional 312 units for a total of 473 units.

171 & 181 Leopold

Killam was pleased to purchase these new buildings in Moncton in Q4-2020. The two new four-story, 107-unit wood frame buildings were purchased for $17.6 million and were easily absorbed into Killam's strong operating platform in this growing New Brunswick city.

Crossing at Belmont

The Crossing at Belmont was Killam's second acquisition in the greater Victoria market. Purchased in April 2020, the newly completed 156-unit concrete property has a mixture of one and two bedroom units. It was successfully fully leased by Q3-2020. The property has many amenities and is adjacent to a new grocery-anchored retail centre.

GROWING THROUGH DEVELOPMENTS

Developing high-quality properties in our core markets is an important component of Killam's growth strategy. To date, Killam has completed over $300 million in development projects totalling more than 1,300 units in 12 development projects completed between 2011 and 2020.

We continued to advance our development pipeline in 2020 with minimal delays caused by COVID-19. In October, Killam completed the 78-unit Shorefront property in Charlottetown.

We ended the year with six active developments underway in Mississauga, Ottawa, Kitchener, Halifax and Charlottetown. These developments will add an additional 535 units to Killam's portfolio in the next 18-24 months.

Killam has an experienced development team and growing pipeline of more than 3,000 units across Canada that will continue to be a significant lever for Killam's earnings growth and value creation.

168 units[1]
$44.3 million
Q2-2022 completion

Luma, Ottawa

(1) Killam has a 50% ownership interest.

The Kay, Mississauga

127 units
$57.0 million
Q4-2021 completion

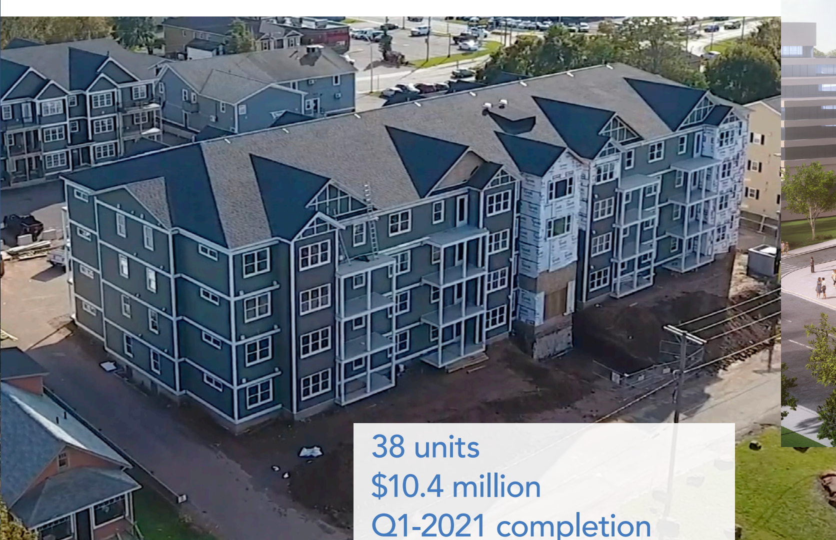
Latitude, Ottawa

209 units[1]
$42.0 million
Q1-2022 completion

(1) Killam has a 50% ownership interest.

The Governor, Halifax

12 luxury units
3,400 SF commercial
Q4-2022 completion



38 units
$10.4 million
Q1-2021 completion

10 Harley, Charlottetown

169 units
$69.7 million
Q4-2022 completion

Civic 66, Kitchener

2020 Environmental, Social & Governance Update

From the Chair of the Governance & ESG Committee

I am proud of Killam's leadership and continued progress with its ESG initiatives. Included in this year's Annual Report are many of Killam's recent initiatives and achievements, as well as its forward-looking targets. Killam has incorporated environmental, social and governance principles into its culture, operations, and business strategy. Killam is contributing positively to the future and we are pleased to have the opportunity to share these successes on the following pages.

We would like to welcome you to read our full ESG disclosure in our 2020 ESG Report, which can be found on our website at killamreit.com/esg.

– Manfred Walt

Killam's 2020 ESG report can be found on Killam's website at killamreit.com/esg

2020 Goals and Performance

ENERGY CONSUMPTION

GOAL
Invest up to $7M in energy-efficiency initiatives including 1,000 kW of new solar panel installations.

PERFORMANCE
$5.2M invested in energy-efficiency projects including 880 MW of solar installs at 11 properties in PEI and NS.

RATING PARTICIPATION

GOAL
Increase GRESB rating by 15 percentage points.

PERFORMANCE
Increased GRESB rating by 15 percentage points or 32% improvement over its initial submission in 2019.

SOCIAL INITIATIVES

GOAL
Increase employee volunteer days by 25%.

PERFORMANCE
Due to COVID-19 pandemic, volunteer opportunities were minimal. Defer goal to post pandemic.

Killam's ESG Targets

Killam has committed to ambitious but realistic ESG targets to work towards in the medium term. These goals aim to mitigate expense growth, continue towards good corporate citizenship and create long-term value for its stakeholders. Management will review these periodically to confirm alignment with its materiality assessment. Killam is scoping out its long-term carbon emission targets and developing a plan to move to net-zero carbon emissions and is hopeful to disclose further details as technology and innovation evolves.

ENVIRONMENTAL

- Reduce GHG emissions by 15%[(1)] by 2030.
- Produce a minimum of 10% of electricity[(2)] through renewable energy sources by 2025.
- Pursue building certifications across a minimum of 20% of Killam's portfolio by 2025.

SOCIAL

- Increase employee volunteer hours by 25% by 2025.
- Increase current number of affordable housing units by 20% by 2025.
- Maintain resident satisfaction score above 85% annually.

GOVERNANCE

- Continue to participate in GRESB survey annually, targeting a minimum increase of 5% each year to reach GRESB 4 Star ranking by 2025, and continue to expand ESG disclosures.
- Increase the diversity of employees, including a 25% increased representation of employees who identify as racialized, as persons with a disability, and as LGBT2Q+ by 2025.

(1) Scope 1 and 2 emissions from 2020 levels.
(2) Operational controlled electricity.

ESG 2020 Highlights and Achievements

E

Killam installed solar photovoltaic panels at 11 properties, generating **880 MWh of renewable energy** annually.

Implemented a **green cleaning policy** for procurement and use throughout its properties.

Installed two beehives at one of Killam's properties as a pilot project.

Completed an independent review of its **2020 greenhouse gas** inventory.

S

Supported affordable housing with more than **750 subsidized units** through community partnerships.

Achieved an **87% resident satisfaction** score.

Achieved an **84% employee satisfaction** score.

Donated over $375,000 in cash and in-kind gifts to support organizations across Canada.

Partnered with the **Canadian Centre for Diversity and Inclusion**.

G

Formed a **Diversity and Inclusion Committee** to assess and make improvements to Killam's current practices and policies.

Enhanced emergency response preparedness plans at all properties.

Aligned Killam's strategy and targets with the **UN's Sustainable Development** Goals.

Reported in accordance with **GRI reporting standards**.

Began **monitoring suppliers' compliance** with Killam's internal ESG minimum standards.

Completed second GRESB submission, achieving a **green star rating and a 32% increase** from its initial score.

Developed **longer-term sustainability** targets.

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PART I

Business Overview

Killam Apartment REIT ("Killam", the "Trust", or the "REIT"), based in Halifax, Nova Scotia ("NS"), is one of Canada's largest residential landlords, owning, operating, managing and developing a $3.8 billion portfolio of apartments, manufactured home communities ("MHCs") and commercial properties across seven provinces. Killam was founded in 2000 to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam entered the Ontario ("ON") apartment market in 2010, the Alberta ("AB") apartment market in 2014, and the British Columbia ("BC") apartment market in 2020. Killam broke ground on its first development in 2010 and has completed twelve projects to-date, with a further five projects currently under construction.

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

1) Increase earnings from the existing portfolio;

2) Expand the portfolio and diversify geographically through accretive acquisitions, targeting newer properties; and

3) Develop high-quality properties in its core markets.

The apartment business is Killam's largest segment and accounted for 88.8% of Killam's net operating income ("NOI") for the year ended December 31, 2020. As at December 31, 2020, Killam's apartment portfolio consisted of 17,048 units, including 968 units jointly owned with institutional partners. Killam's 206 apartment properties are located in Atlantic Canada's six largest urban centres (Halifax, Moncton, Saint John, Fredericton, Charlottetown and St. John's), Ontario (Ottawa, London, Toronto and Kitchener-Waterloo-Cambridge), Alberta (Edmonton and Calgary), and British Columbia (Greater Victoria). Killam is Atlantic Canada's largest residential landlord, owning a 13% total share of multi-family rental units in these core Atlantic markets. Killam plans to continue increasing its presence outside Atlantic Canada through acquisitions and developments; however, it will continue to invest strategically in Atlantic Canada to maintain its market presence.

In addition, Killam owns 5,875 sites in 39 MHCs, also known as land-lease communities or trailer parks, in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting these communities and leases sites to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 6.5% of Killam's NOI for the year ended December 31, 2020. Killam also owns 749,661 square feet (SF) of commercial space that accounted for 4.7% of Killam's NOI for the year ended December 31, 2020.

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the annual consolidated financial statements including the notes thereto and pertains to known risks and uncertainties. This MD&A should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2020 and 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with Killam's 2019 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 10, 2021. This MD&A has been reviewed and approved by Management and the REIT's Board of Trustees.

Declaration of Trust

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

Investment Guidelines

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

Operating Policies

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

As at December 31, 2020, Killam was in compliance with all investment guidelines and operating policies.

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. Such forward-looking statements may include, among other things, statements regarding: uncertainties and risks arising as a result of the spread of the COVID-19 pandemic, including uncertainty surrounding disruptions to financial markets, regional economies and the world economy; the financial condition of Killam's tenants and the ability of Killam's tenants to pay rent; interest rate fluctuations; market values; impact on financial results including impacts relating to rental rate growth expectations and rent collection; pace and scope on future acquisitions, construction, development and renovation, renewals and leasing; and the availability of capital to fund further investments in Killam's business. Readers should be aware that these forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward-looking statements, including: the effects, duration and government responses to the COVID-19 pandemic and the effectiveness of measures intended to mitigate the impact of COVID-19, national and regional economic conditions and the availability of capital to fund further investments in Killam's business. Further information regarding these risks, uncertainties and other factors may be found under the heading "Risk Management" in this MD&A and in Killam's most recent Annual Information Form. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements contained, or incorporated by reference, in this MD&A.

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

Non-IFRS Financial Measures

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

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, interest expense related to lease liabilities, insurance proceeds, and non-controlling interest. FFO are calculated in accordance with the REALPAC definition, except for the adjustment of insurance proceeds as REALPAC does not address this adjustment. A reconciliation between net income and FFO is included on page 31.
- Adjusted funds from operations ("AFFO"), and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less an allowance for maintenance capital expenditures ("capex") (a three-year rolling average of historical capital spend to maintain and sustain Killam's properties), commercial leasing costs and straight-line commercial rents. AFFO are calculated in accordance with the REALPAC definition. Management considers AFFO an earnings metric. A reconciliation from FFO to AFFO is included on page 33.
- Adjusted cash flow from operations ("ACFO") is calculated by Killam as cash flow provided by operating activities with adjustments for changes in working capital that are not indicative of sustainable cash available for distribution, maintenance capital expenditures, commercial leasing costs, amortization of deferred financing costs and non-controlling interest. Management considers ACFO a measure of sustainable cash flow. A reconciliation from cash provided by operating activities to ACFO is included on page 34. ACFO is calculated in accordance with the REALPAC definition.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") is calculated by Killam as income before fair value adjustments, gains (losses) on disposition, income taxes, interest, depreciation and amortization.
- Interest coverage is calculated by dividing EBITDA by interest expense, less interest expense related to exchangeable units.
- Debt service coverage is calculated by dividing EBITDA by interest expense, less interest expense related to exchangeable units, and principal mortgage repayments.
- Debt to normalized EBITDA is calculated by dividing interest-bearing debt (net of cash) by EBITDA that has been adjusted for a full year of stabilized earnings from recently completed acquisitions and developments.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties that Killam has owned for equivalent periods in 2020 and 2019. Same property results represent 90.3% of the fair value of Killam's investment property portfolio as at December 31, 2020. Excluded from same property results in 2020 are acquisitions, dispositions and developments completed in 2019 and 2020, non-stabilized commercial properties linked to development projects, and other adjustments to normalize for revenue or expense items that relate to prior periods or are not operational.

PART II
Key Performance Indicators

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

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

Financial and Operational Highlights

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

For the years ended December 31,	**2020**	2019	Change [2]
Operating Performance			
Property revenue	**$261,690**	$242,164	8.1%
Net operating income	**$164,662**	$152,336	8.1%
Net income	**$146,040**	$283,525	(48.5)%
FFO [1]	**$104,678**	$93,884	11.5%
FFO per unit – diluted [1]	**$1.00**	$0.98	2.0%
AFFO [1]	**$86,816**	$76,768	13.1%
AFFO per unit – diluted [1]	**$0.83**	$0.80	3.7%
Weighted average number of units outstanding – diluted (000s)	**104,503**	95,914	9.0%
Distributions paid per unit [3]	**$0.68**	$0.66	3.1%
AFFO payout ratio – diluted [1]	**82%**	82%	— bps
Portfolio Performance			
Same property NOI [1]	**$147,372**	$144,030	2.3%
Same property NOI margin [1]	**63.5%**	63.3%	20 bps
Same property apartment occupancy	**96.8%**	97.2%	(40) bps
Same property apartment weighted average rental increase [4]	**3.4%**	3.6%	(20) bps

As at December 31,	**2020**	2019	Change [2]
Leverage Ratios and Metrics			
Debt to total assets	**44.6%**	43.4%	120 bps
Weighted average mortgage interest rate	**2.69%**	2.90%	(21) bps
Weighted average years to debt maturity	**4.6**	4.5	0.1 years
Debt to normalized EBITDA [1]	**10.78x**	10.15x	6.2%
Debt service coverage [1]	**1.57x**	1.57x	—%
Interest coverage [1]	**3.36x**	3.20x	5.0%

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

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

(3) The Board of Trustees approved a 3.0% increase in Killam's distribution on an annualized basis to $0.68 per unit effective for the March 2020 distribution.

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

Summary of 2020 Results and Operations

Portfolio Growth from Acquisitions
Killam completed $211.1 million in acquisitions in 2020, bringing its total portfolio to $3.8 billion. Killam added 650 apartment units to its portfolio by entering into the BC apartment market for the first time, acquiring 315 units in Victoria and further expanding its presence in Halifax and Moncton. Killam also acquired an MHC containing 89 sites, a small commercial property and development land, totalling $12.0 million. Killam continues to execute on its geographic diversification strategy and increased the percentage of NOI generated outside of Atlantic Canada to 32%, up from 30% in 2019. Over 56% of the equity deployed in 2020 was in British Columbia and Ontario.

FFO per Unit Growth of 2.0% and AFFO per Unit Growth of 3.7%
Killam generated solid FFO and AFFO per unit growth in 2020. FFO per unit was $1.00 in 2020, 2.0% higher than 2019. AFFO per unit increased 3.7%, to $0.83 compared to $0.80 in 2019. The growth in FFO and AFFO was attributable to an increase in same property performance, and contributions from recent acquisitions and stabilized developments, partially offset by a 9.0% increase in the weighted average number of units outstanding.

Positive Same Property NOI Growth
Killam achieved 2.3% same property NOI growth during the year, with apartments up 2.6%, offsetting a 0.2% decline from the MHC portfolio. Overall, same property revenues were up 2.0% and expenses were up only 1.4%, compared to 2019. Impacts of COVID-19 were felt in the year, including delayed apartment rent increases following rent increase suspensions during Q2, reduced activity at Killam's nine seasonal MHCs, lower commercial rent following participation in the Canadian Emergency Commercial Rent Assistance (CECRA) program, and increased compensation for Killam's front-line workers.

Repositioning Program Continues to Generate Above-average Returns
During 2020, Killam invested $14.5 million in unit repositionings, completing 495 unit upgrades, up 63% from 304 units completed in 2019. The average unlevered return on investment ("ROI") on unit repositionings completed during the year was 13.0%, based on an average renovation cost of $25,000 per unit. Repositioned units completed in 2020 are expected to generate approximately $1.5 million in additional NOI on an annualized basis and approximately $30 million in Net Asset Value ("NAV") growth at current capitalization rates.

Refinancing at Low Rates Contributed to Earnings Growth
Killam benefited from lower interest rates on mortgages refinanced in 2020. During the year, Killam refinanced $219.1 million of maturing mortgages with $297.1 million of new debt at a weighted average interest rate of 1.83%, 85 bps lower than the weighted average interest rate of the maturing debt. Killam was also able to take advantage of low interest rates for acquisitions, placing debt on acquisitions in the fourth quarter of 2020 at a weighted average interest rate of 1.9%.

Substantial Development Activity
Killam continues to advance its development pipeline, with five active developments underway at year-end totaling 711 units (523 units representing Killam's percentage ownership) for an expected total investment of $310 million (Killam's investment $223 million). During 2020, Killam invested $76.1 million in its active development projects and completed its Shorefront development, a 78-unit building located in Charlottetown, PE. Shorefront was substantially complete in Q4 and is currently 55% leased. Killam's 38-unit 10 Harley project is 95% complete and the building is expected to open by the end of February. Killam's 10% interest in the 233-unit Nolan Hill development project was also substantially complete at year-end, and Killam closed the acquisition of the remaining 90% of the project in January 2021.

Environmental, Social and Governance (ESG) Focused Initiatives
Killam is continuing to work towards reducing its impact on the environment and ensuring its buildings are sustainable and resilient to climate change. Killam's ongoing energy efficiency capital investments program has been updated to include the installation of solar photovoltaic panels as a part of Killam's renewable energy targets. In late 2020, solar panels were installed at 11 existing properties, for an investment of $1.2 million, with an additional $2.5 million budgeted in 2021. Management completed its second GRESB rating in 2020, realizing a 32% improvement over its initial 2019 submission. From this process, many new ESG initiatives continue to be rolled out, such as building certification applications, sustainable supply chain management policies and enhanced diversity and inclusion practices.

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

COVID-19 Impact on Operations

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. Since the onset of the pandemic, Killam has focused on ensuring the continued health and safety of its employees, tenants, stakeholders and communities. Killam responded quickly and executed on its Pandemic Illness Plan to help lessen the spread of COVID-19.

Due to the inherent uncertainty surrounding disruption from COVID-19, it is not possible to forecast with certainty the duration and full scope of the economic impact and other consequential changes the pandemic may have on Killam's business and operations, both in the short term and medium term. However, we are encouraged by the resourcefulness of our staff and resiliency of our revenue base.

All Killam's apartment properties, permanent MHCs and the essential retail tenants remained operational during the third and fourth quarters. As COVID-19 persists, Killam will continue to act and support its tenants in accordance with direction provided by the federal, provincial, and municipal governments.

Due to the economic uncertainty facing many Canadians during the initial emergency measures associated with the pandemic, Killam waived the collection of rental increases from April to July 2020 for lease renewals, in addition to the waiving of both NSF and late fees. During Q3-2020, Killam waived increases for July but reinstated the increases beginning in August or September for most properties.

Killam also delayed distribution of rental increase notices to tenants between March and May 2020. As the required notice period to increase rents is a minimum of three months in most provinces across Canada, Killam did not begin collecting rental increases pertaining to these notices until Q4-2020.

Overall, rent collection remained strong in 2020, with rent collection rates as follows for the year ended December 31, 2020:

% Collected [1]	**2020**
Apartments	99.9%
MHCs	99.6%
Commercial	98.5%
Total (weighted average)	99.7%

(1) % collected takes into consideration CECRA government funding, rent deferrals and rent abatement.

Killam worked with tenants who were financially impacted by COVID-19 during the year and where relevant, consistent with provincial directives. Historically, Killam has had less than 0.3% of revenue uncollected, and at this time management does not expect a material increase in rental defaults in 2021. Killam continues to offer a rent deferral program to assist residential tenants facing financial hardship due to COVID-19, working with residents on a case-by-case basis.

Killam also works closely with its commercial tenants under the CECRA program. Killam's commercial tenant base makes up a relatively small portion of Killam's overall business, with the commercial portfolio accounting for approximately 6.0% of total revenues and 4.7% of Killam's total NOI for the year ended December 31, 2020. Killam filed CECRA applications for approximately 40 commercial tenants and recorded a reduction in commercial revenue of $0.3 million during the year related to the program. Killam also provided various commercial tenants rental abatement during 2020 to help mitigate the impact of the pandemic with an impact of $0.3 million on commercial revenue.

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

Strategic Targets

Growth in Same Property NOI	
2020 Target	Same property NOI growth of 3% to 5%.
2020 Performance	Killam achieved same property NOI growth of 2.3% in 2020, slightly below its 2020 target as a result of COVID-19.
2021 Target	Same property NOI growth over 2%, subject to COVID-19 related restrictions being lifted by Q3-2021.
Longer-term Target	Same Property NOI growth averaging 2% - 4%.

Expanded Portfolio	
2020 Target	Complete a minimum of $175 million in acquisitions.
2020 Performance	Killam exceeded its target, completing $211.1 million in acquisitions.
2021 Target	Complete a minimum of $100 million in acquisitions.
Longer-term Target	Grow the portfolio to over $5.0 billion by the end of 2025.

Geographic Diversification	
2020 Target	Earn at least 32% of 2020 NOI outside Atlantic Canada.
2020 Performance	Killam generated 32% of 2020 NOI outside Atlantic Canada.
2021 Target	Earn over 32% of 2021 NOI outside Atlantic Canada.
Longer-term Target	Earn over 36% of NOI generated outside Atlantic Canada by 2025.

Development of High-quality Properties	
2020 Target	To complete the Shorefront development, and break ground on two additional development projects.
2020 Performance	Killam met its development target, completing the 78-unit Shorefront project in October 2020, while also breaking ground on its Civic 66 development and acquiring a 50% interest in the active Luma development in Q3-2020.
2021 Target	To complete the construction of two buildings totalling a 166 units and break ground on two additional developments totalling a minimum of 150 units.
Longer-term Target	To complete a minimum of $250 million in developments between 2021 and 2025.

Strengthened Balance Sheet	
2020 Target	Maintain debt as a percentage of assets ratio below 47%.
2020 Performance	Debt as a percentage of total assets was 44.6% as at December 31, 2020.
2021 Target	Maintain debt as a percentage of assets ratio below 47%.
Longer-term Target	Reduce debt as a percentage of assets below 40% by the end of 2025.

Sustainability	
2021 Target	Minimum investment of $5.0 million in energy initiatives in 2021 to reduce Killam's carbon footprint and increase sustainability.
Longer-term Target	Reduce Killam's GHG emissions by 15% by 2030 and produce a minimum of 10% electricity through renewable sources by 2025.

Outlook

Demand for Apartments Remains Strong
Killam's 2020 same property NOI growth was impacted by the COVID-19 pandemic, mainly due to the waiving of rental increases, suspension of rental increase notices, and a reduction in revenue at Killam's seasonal resorts. Despite these constraints, demand for apartments remains robust and Killam continues to execute on its value-enhancing initiatives. Management is seeing stable to increasing market rents across the majority of its portfolio, which is expected to lead to continued top-line growth. This growth may be partially offset by a government-imposed rental rate freeze in Ontario in 2021, and a potential uptick in vacancy in the year ahead. With ongoing pandemic restrictions, Killam may see occupancy levels decline slightly in certain markets and student-focused properties. Management will closely monitor demand drivers across the portfolio and adjust leasing efforts accordingly.

Continued Expansion of Suite Repositioning Program
Management is committed to its repositioning program. Following the success of 2020's program of 495 suite renovations, management plans to expand the program further in 2021, targeting 550 repositions. In addition, Killam is improving efficiencies and targeting improved performance metrics in the year ahead, including the percentage of repositionings completed in 28 days. Suite repositionings represent unit upgrades above $10,000. Killam targets an ROI of at least 10% and monthly rental rate increases of 10%–30% upon completion of the renovation. A review of Killam's portfolio has identified a minimum of 5,000 units having repositioning potential.

Investments in Energy Efficiency Programs to Reduce CO_2 Emissions and Offset Rising Operating Costs
Investments in energy and water-saving initiatives, and operational efficiencies, are expected to continue to reduce Killam's energy consumption and offset rising operating costs, including property taxes and insurance. Killam has invested $16.4 million to reduce the carbon footprint of its buildings through the installation of low-flow water fixtures, boiler, ventilation and cooling system upgrades, and the retrofit of temperature control and lighting systems over the last four years. Management is planning to invest a minimum of $5.0 million in new efficiency projects in 2021, including increased investment in solar panels. These projects should contribute to same property NOI growth by lowering consumption and improve Killam's sustainability metrics.

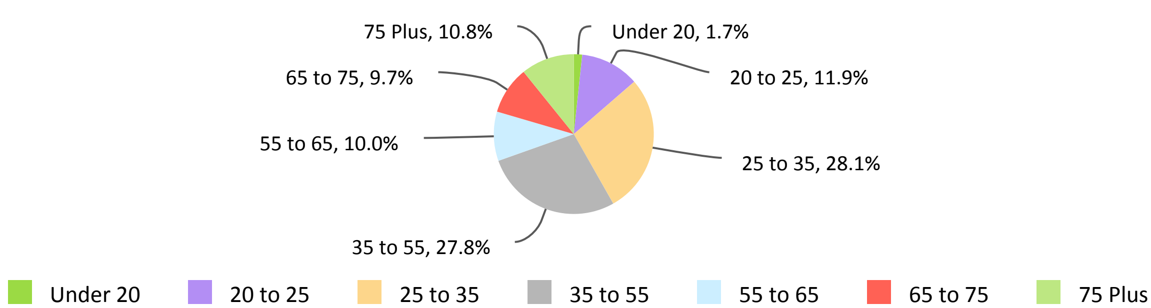
Interest Expense Savings on Refinancings
Killam's mortgage financings and renewals progressed on schedule in 2020, in terms of both timing and upfinancing opportunities. Looking forward, with $141.2 million in mortgages maturing in 2021, management expects to up-finance approximately $50.0 million of cash and, based on current interest rates, reduce its overall weighted average interest rate.

Growth through Accretive Developments
Development remains an important component of Killam's growth strategy. Killam currently has five developments underway, for a total of 523 apartment units at a total cost of approximately $223.4 million and an expected weighted average yield of approximately 5.0%. The majority of the capital required for these developments is being funded through construction loans. In addition, Killam acquired the remaining 90% interest in the Nolan Hill development early in 2021, adding another 233 units to its portfolio. The completion and stabilization of these projects are expected to contribute positively to Killam's future FFO per unit growth.

Well-positioned for Future Acquisitions
Killam finished 2020 with acquisition capacity exceeding $330 million following a $40 million increase in its credit facility in December. Following the closing of the remaining 90% interest in Nolan Hill and acquisitions of land for future development in early 2021, Management expects its acquisition capacity to be over $250 million. Management remains focused on growing its portfolio in Ontario and Western Canada and is actively looking for acquisition opportunities in these markets.

Diverse Tenant Demographics Contribute to Stable Occupancy
Killam's tenant base includes a diverse mix of tenants, including young professionals, seniors, empty nesters, families, and students. Since the onset of COVID-19, Killam has experienced relatively stable occupancy in most of its markets, however, Killam has seen increased vacancy in St. John's, Newfoundland, Kanata (Ottawa) and downtown Calgary. The diversity of Killam's tenant base is expected to contribute to continued stable occupancy overall. The following chart illustrates Killam's 2020 tenant demographic by age.

2020 Tenant Demographic by Age



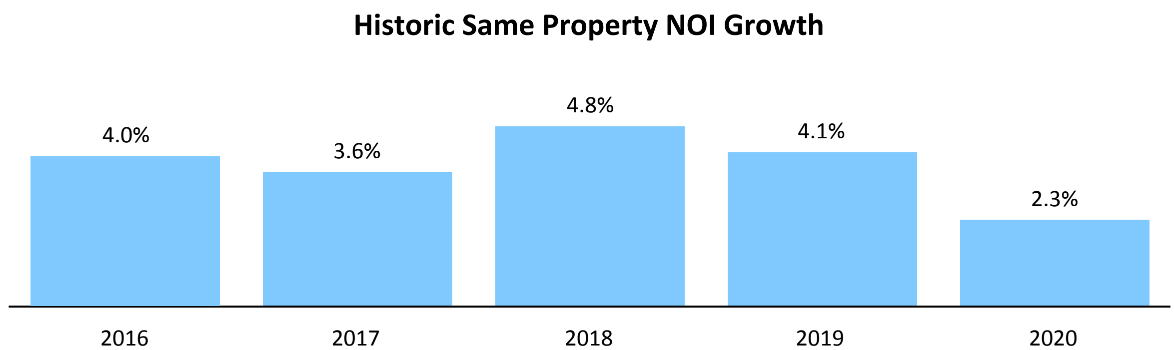
PART III

Business Strategy

Increase Earnings from the Existing Portfolio

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

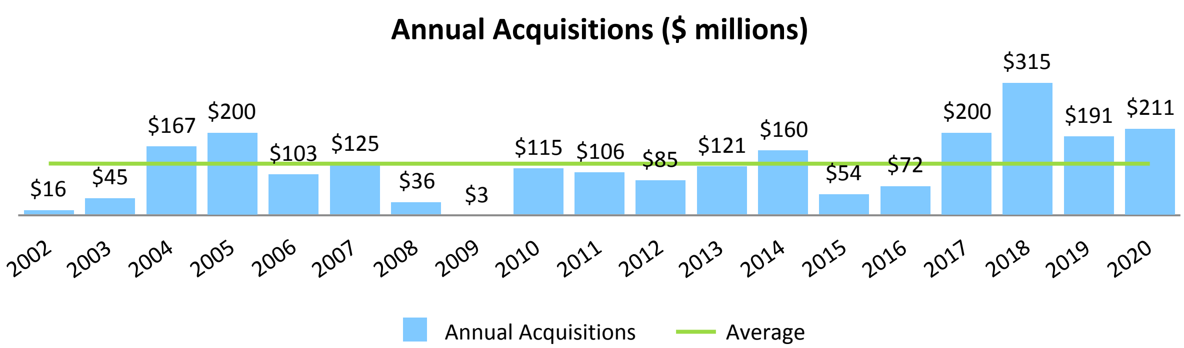
Killam has increased same property NOI by an average of 2.4% per annum over the past decade; in the last five years, Killam has averaged 3.8% growth.



Expand the Portfolio through Acquisitions

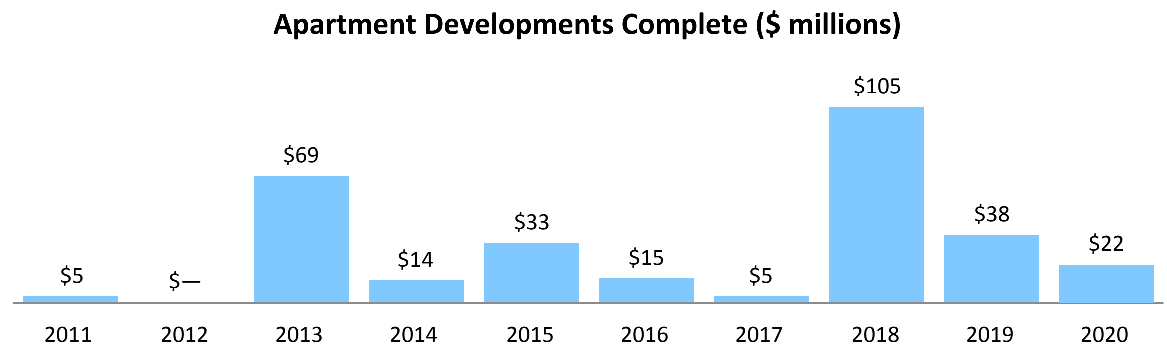
Killam is expanding its portfolio through the acquisition of centrally located buildings in its target markets of Ontario, Alberta and most recently British Columbia, and continuing to add to its established portfolio in Atlantic Canada. Acquisition activity varies by year depending on opportunities and access to capital. In 2020, Killam acquired $211.1 million in assets. On average, Killam has acquired over $122.0 million of properties annually since its first acquisition in 2002.

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



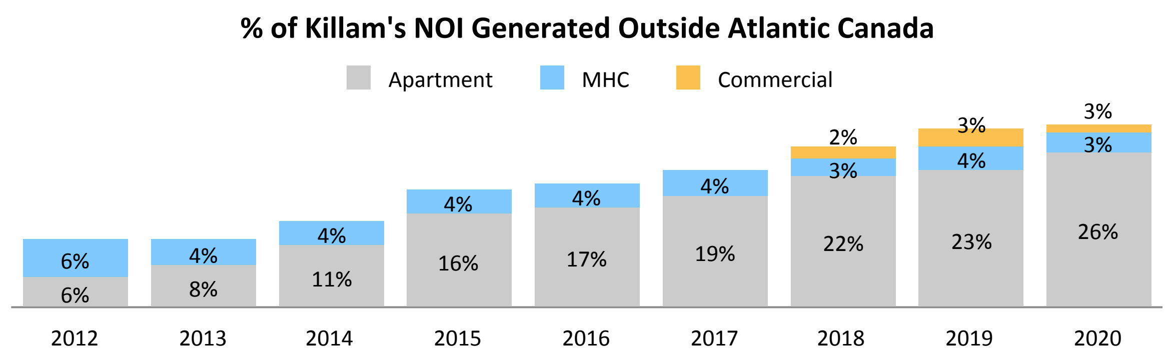
Develop High-quality Properties in Core Markets

Killam enhances its organic and acquisition growth opportunities with development. Killam started developing apartments in 2010 and has completed twelve projects to-date, investing over $300 million to construct nearly 1,300 units. Killam has an experienced development team who hold architectural and engineering degrees, that oversee all projects. New property construction enables Killam to control the quality and features of its buildings. Killam targets yields of 4.5%–5.5% on development, and expects to build at a 50–150 bps discount to the market capitalization rates ("cap-rates") on completion, creating value for its unitholders. Killam currently has a development pipeline of approximately 3,000 units.



Diversify Geographically through Accretive Acquisitions

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



Committed to ESG

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

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

Killam has a long history of investing in energy efficiencies. When natural gas was first introduced to the market in Atlantic Canada in 2004, Killam was an early adopter. Today 58% of its properties are heated with natural gas, a much cleaner fuel than furnace oil. Starting in 2016, Killam commenced a five-year, $25.0 million energy-efficiency program, focused on reducing its greenhouse gas emissions, gaining operating efficiencies and lowering operating costs. In the past five years, Killam's green projects include the installation of solar panels, installation of electric vehicle (EV) chargers, air-sealing apartment units, installation of low-flow toilets and LED lighting retrofits across the entire apartment portfolio. This is in addition to the installation of solar, EV chargers and geothermal heating systems in new developments.

Giving back has always been an important part of being a responsible corporate citizen at Killam. Killam invests in its communities through various programs and initiatives, and partners with non-profit housing agencies to provide more than 750 subsidized apartment units throughout its portfolio. The focus on fostering a sense of community is a priority at Killam.

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

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

Sustainability Policy

Killam has a sustainability policy detailing its commitment to ESG practices. The policy applies to all Killam employees. It is supported by the Governance and ESG Committee and approved by the Board of Trustees.

The following is Killam's commitment to ESG, included in the ESG policy:

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

ESG Progress

Killam continues to research and invest in initiatives to reduce its greenhouse gas emissions. Along with its annual energy efficiency program, Killam commenced installation of photovoltaic solar panels in 2020 at 11 of its properties, generating 880 MWh of renewable energy with a 10% ROI. As well, Killam participated in its second GRESB assessment, achieving a 32% increase from initial score and a green star ranking.

Based on Killam's 2020 greenhouse gas emissions, new longer-term targets have been developed. Management is targeting to reduce Killam's carbon footprint by 15% in the next 10 years and to use renewable energy sources to replace other fossil fuel for a minimum of 10% of its supply over the next 5 years. Killam will continue to monitor progress and adjust these targets in future years, acknowledging the complexity and many external factors that contribute to Killam's overall goal of reducing its greenhouse gas emissions. Killam is committed to being a part of the communities where it operates and to decreasing its carbon footprint and its overall impact on climate change.

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

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolios by market as at December 31, 2020:

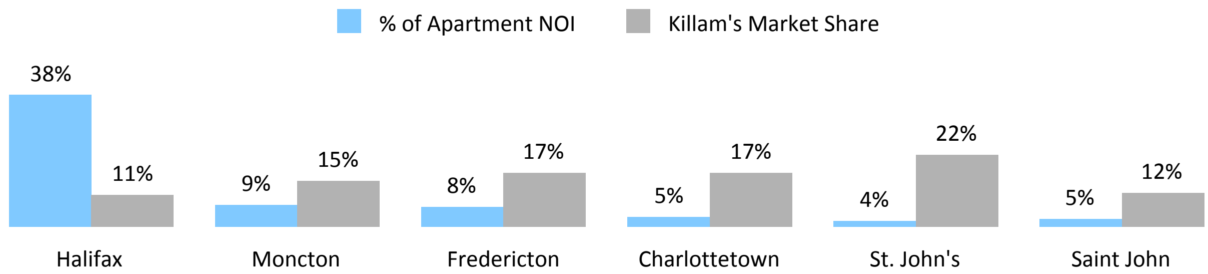
Apartment Portfolio				
	Units [1]	Number of Properties	NOI ($) [2]	NOI [2] (% of Total)
Nova Scotia				
Halifax	5,814	65	$56,104	34.1%
Sydney	139	2	$1,312	0.8%
	5,953	67	$57,416	34.9%
New Brunswick				
Moncton	2,073	36	$12,636	7.8%
Fredericton	1,529	23	$11,735	7.1%
Saint John	1,202	14	$6,668	4.0%
Miramichi	96	1	$651	0.4%
	4,900	74	$31,690	19.3%
Ontario				
Ottawa	1,216	9	$10,642	6.5%
London	523	5	$5,409	3.3%
Cambridge-GTA	818	6	$11,008	6.7%
	2,557	20	$27,059	16.5%
Newfoundland & Labrador				
St. John's	915	12	$6,334	3.8%
Grand Falls	148	2	$662	0.3%
	1,063	14	$6,996	4.1%
Prince Edward Island				
Charlottetown	1,064	20	$7,123	4.3%
Summerside	86	2	$612	0.4%
	1,150	22	$7,735	4.7%
Alberta				
Calgary	531	3	$5,277	3.3%
Edmonton	579	4	$6,167	3.7%
	1,110	7	$11,444	7.0%
British Columbia				
Victoria	315	2	$3,808	2.3%
Total Apartments	**17,048**	**206**	**$146,148**	**88.8%**
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) [2]	NOI [2] (% of Total)
Nova Scotia	2,749	17	$4,807	2.9%
Ontario	2,284	17	$5,460	3.3%
New Brunswick	672	3	$217	0.1%
Newfoundland & Labrador	170	2	$368	0.2%
Total MHCs	**5,875**	**39**	**$10,852**	**6.5%**
Commercial Portfolio [3]				
	Square Footage [4]	Number of Properties	NOI ($) [2]	NOI [2] (% of Total)
Prince Edward Island	191,511	1	$1,361	0.8%
Ontario	306,106	1	$4,510	2.8%
Nova Scotia	218,829	5	$1,379	0.8%
New Brunswick	33,215	1	$412	0.3%
Total Commercial	**749,661**	**8**	**$7,662**	**4.7%**
Total Portfolio		**253**	**$164,662**	**100.0%**

(1)Unit count includes the total unit count of properties held through Killam's joint arrangements. Killam has a 50% ownership interest in two apartment properties in Ontario, representing a proportionate ownership of 484 units of the 968 units in these properties. Killam manages the operations of all the co-owned apartment properties.
(2)For the year ended December 31, 2020.
(3)Killam also has 175,800 square feet of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.
(4)Represents Killam's ownership, which includes a 50% interest in commercial properties located in Nova Scotia and Prince Edward Island, managed by the co-owners.

Unique Portfolio Features

Atlantic Canada's Market Leader
Killam is the single largest multi-residential landlord in Atlantic Canada, with a 13% market share of apartments in its core markets as of December 31, 2020. A large portfolio in each core market provides advantages, including brand recognition, a diverse selection of apartments in each city, improved operating margins from economies of scale and the ability to attract and retain top management talent.

Market Share and Apartment NOI (%)



Relatively Modest Exposure to Rent Control
Over 70% of Killam's current apartment portfolio is not impacted by permanent rent control, allowing Killam to move rents to market rates annually in these regions. Prince Edward Island, representing 5.3% of Killam's apartment NOI, is the only province in Atlantic Canada with rent control for apartments. In November 2020, Nova Scotia announced temporary rent restriction measure, limiting rental increases on lease renewal to 2%, to address the economic impact of the COVID-19 pandemic. Killam's Nova Scotia portfolio accounts for 39.3% of apartment NOI. These measures are in place until the provincial state of emergency is lifted, or until February 2022, whichever is sooner. At this time, Management does not expect Nova Scotia to move to a permanent rent control model.

Killam's Ontario portfolio, accounting for 18.5% of apartment NOI, is subject to rent control. In response to the COVID-19 pandemic, the Ontario government passed legislation to freeze rents at 2020 levels in 2021 however, landlords can move rents to market on a unit-by-unit basis as they become vacant. Killam's newest market, British Columbia, making up 2.6% of Killam's apartment NOI, also has rent control and the government announced a maximum allowable rental increase of 1.4% in 2021. British Columbia also announced a rent increase freeze in response to COVID-19. The freeze is currently in effect until July 10, 2021. Ontario and Nova Scotia both have rent control for MHCs, however, in both provinces, rent controls do not apply to new tenants.

In all of the regions impacted by rent control, owners may apply for above-guideline increases ("AGIs") to offset significant capital expenditures. Killam analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to optimize rents on renewal and on turn. Management has increased its focus on applying for AGIs in Ontario, where increases above the annual guideline are supported by significant capital investments in Killam's assets.

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

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

Focused on Customer Service
Annually, Management engages an independent market research firm to measure tenants' satisfaction through an online survey (3,450 respondents in 2020). Killam's 2020 survey results support Killam's focus on service, with tenants giving Killam an impressive 87% satisfaction rating. Killam takes pride in offering tenants well-maintained properties, responding to service requests in a timely manner and providing an attractive housing value proposition. In-house educational programs and adoption of new technology enhance employees' skills to provide exemplary service to current and prospective tenants.

Geographic Diversification
Killam is focused on increasing its geographic diversification through the acquisition and development of properties in its core markets in Ontario, Alberta and British Columbia. Killam's current apartment portfolio consists of 2,557 apartment units in Ontario, up from 225 units in 2010 when Killam first entered the market, and includes properties in Ottawa, Toronto, London, and Kitchener-Waterloo-Cambridge. Killam has also assembled a portfolio of 1,110 units in Calgary and Edmonton and recently closed the acquisition of the remaining 90% interest in a joint development project in Calgary, adding an additional 233 units to its Alberta portfolio in January 2021. In January 2020, Killam acquired its first apartment property in Greater Victoria, BC, and now owns 315 units in the province. In addition to apartments, 39% of Killam's MHC sites and 41% of Killam's commercial square footage is located in Ontario.

Below Market Rents

Management estimates market rental rates are approximately 10-15% higher than Killam's total apartment weighted average rents. Killam's weighted average rental rate was $1.37 per square foot for the year ended December 31, 2020. The differential between market and in-place rents reflects Killam's current affordability within its markets, as well as opportunities for rental increases when natural turnover arises.

Core Market Update

Halifax

Thirty-four percent of Killam's NOI is generated by its Halifax apartment properties. Halifax is the largest city in Atlantic Canada and is home to 17% of Atlantic Canadians. The city's rental market totals 54,100 units, with an additional 3,200 rental units currently under construction. According to CMHC's 2020 Rental Market Report, the Halifax rental market although slowing, remains tight and in need of increased supply. Halifax's diverse economy generates 54% of Nova Scotia's GDP and is home to 44% of the province's population. With six degree-granting universities and three large community college campuses, Halifax has approximately 39,600 full-time students, including 7,100 international students. Halifax's employment base is diversified, with the largest sectors focused on public service, health care, education, and retail and wholesale trade. Halifax is home to the largest Canadian Forces Base by number of personnel, and the Department of National Defence is the city's largest single employer.

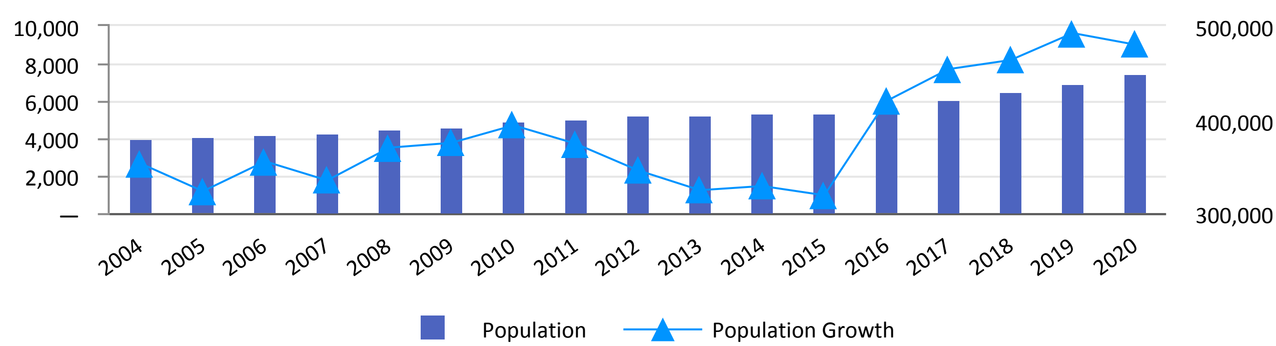
Scotiabank's October 2020 Provincial Pulse report notes that while Nova Scotia experienced lower population growth in 2020 as a result of the pandemic, a significant increase in infrastructure spending is expected to offer short-term support for Nova Scotia's growth outlook. Despite the challenges reflected by decreased GDP and employment rates for 2020, the report notes Halifax remains Atlantic Canada's high value service sector hub, showing resilience with greater capacities for work to be carried out remotely. The economic outlook forecasts year-over-year gains in 2021 for Nova Scotia's GDP growth, employment rates and Consumer Price Index.

According to RBC's December 2020 Provincial Outlook, Nova Scotia's employment is quickly returning to pre-crisis levels, with 97% of pandemic job losses recovered by November 2020. Nova Scotia is expected to see enhanced public-sector capital investments, which will stimulate the province's economy, and provide an additional boost to employment in 2021. RBC projects provincial GDP to grow 4.3% in 2021, after contracting by 4.4% in 2020.

Over 300 companies are participating in ocean-sector businesses in Nova Scotia, with more than 80 innovators of new, high-tech products and services. The Ocean Frontier Institute provides funds for ocean research and advancement for faculty at Dalhousie University, creating new opportunities for Dalhousie researchers. There is tremendous opportunity to leverage science and technology in Canada's ocean sectors, furthering the knowledge-based ocean economy. Canada's Ocean Supercluster aims to build Canada's ocean economy into one of the country's most significant and sustainable economic segments, through federal government and private sector co-investment totalling more than $300 million over the next four years.

The following chart summarizes Halifax's population growth from 2005 to 2020, the most recent year for which detailed population growth data is available:

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



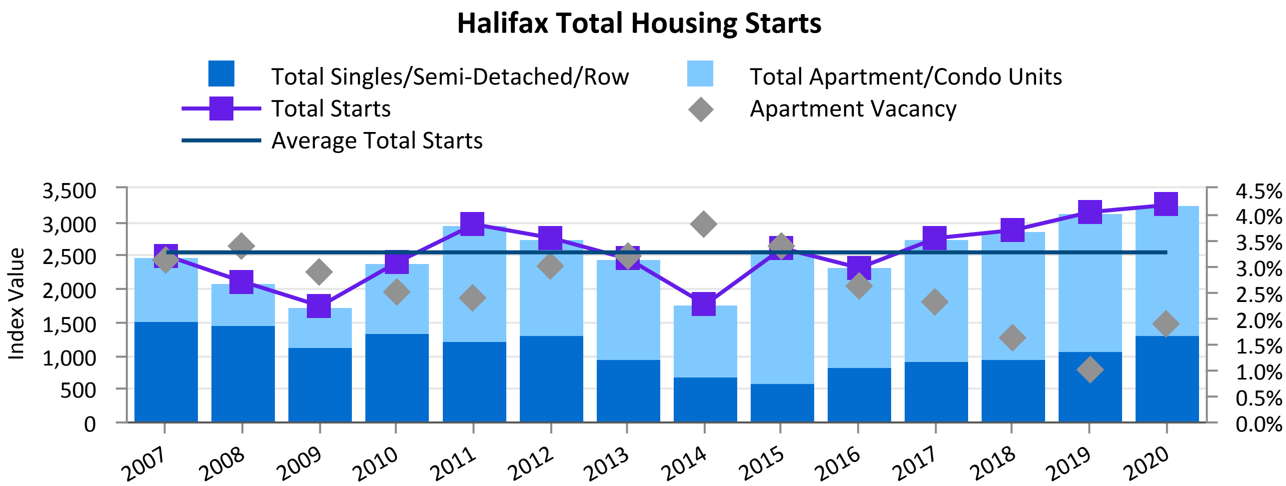
Source: Statistics Canada

Halifax's population growth in each of the last three years was 1.9%, 2.2% and 2.0%, primarily driven by immigration and urbanization. Over this three-year period, Statistics Canada has reported that Halifax's overall population grew by over 26,500 people. The slight decrease in population growth from July 1, 2019 to June 30, 2020, compared to July 1, 2018 to June 30, 2019, is attributable to the pandemic, resulting in decreased immigration year-over-year. RBC's December 2020 Provincial Outlook predicts immigration to resume once immunization is well underway and return to pre-pandemic levels by the end of 2021.

Statistics Canada reported net provincial migration in 2020 was 1,600, with the past five years seeing positive migration. Halifax has seen an increase in international immigration, representing 64% of Halifax's population growth in 2020.

According to CMHC's Rental Market Report, released in early 2021, Halifax currently has over 3,000 rental units under construction. CMHC's report states rising home prices coupled with record-low inventory are negatively impacting affordability for first-time home buyers, likely slowing the transition from rental to homeownership. CMHC's Rental Market Report reported Halifax's vacancy rose by 0.9% to 1.9% for 2020, compared to 1.0% in 2019. Halifax saw the highest vacancy in its downtown core and south peninsula, an area with high concentrations of students, reflecting the impact of the city's major universities offering their programs online and less international travel. Vacancy rates were higher in older and less expensive units, highlighting demand for renovations and redevelopment. Despite a lack of international immigration due to COVID-19 restrictions, net interprovincial migration has remained strong, increasing 8.0% in the second quarter of 2020, compared to the same period of 2019.

The following chart summarizes Halifax's housing start activity from 2007 to 2020:



Source: CMHC

New Brunswick

Nineteen percent of Killam's NOI is generated by apartments in New Brunswick's three major urban centres – Fredericton, Moncton and Saint John. Fredericton is the provincial capital and home to the province's largest university and a significant public sector workforce. Moncton is the province's largest city and is a transportation and distribution hub for Atlantic Canada. According to RBC's December 2020 Provincial Outlook, New Brunswick's economy suffered in 2020 with a projected 4.2% decline in GDP, however, the outlook for 2021 is positive, with expected growth of 4.0%. RBC reports New Brunswick's labour market is recovering with 92% of job losses, as a result of the pandemic, recovered by fall 2020. Moncton, Fredericton and Saint John represent 8%, 7% and 4% of Killam's 2020 NOI, respectively.

According to CMHC, New Brunswick's vacancy was 3.1% in October 2020, compared to 2.6% in 2019. Increased vacancy is partially a result of new supply, approximately 2,200 units were completed in 2020.

St. John's, Newfoundland

Four percent of Killam's NOI is generated in St. John's, Newfoundland. RBC's December 2020 Provincial Outlook reported Newfoundland's economy is projected to see a 4.6% decline in GDP in 2020. Newfoundland's labour force made a strong recovery, being the only province where employment has returned to pre-pandemic levels by November 2020. However, due to the timing of large projects finishing up and newer ones being cancelled, this momentum is not expected to continue.

Prince Edward Island

Killam has a 17% share of the Charlottetown market, the provincial capital and the economic centre of Prince Edward Island. The Charlottetown apartment market accounted for 4% of Killam's total NOI in 2020. According to RBC's December 2020 Provincial Outlook report, PEI's economy is expected to be the first to recover to pre-COVID levels in 2021, with economic growth of 4.2% forecasted. While economic damage was less severe in PEI than seen in other provinces, the province is projected to see a 3.7% decline in GDP for 2020. CMHC reported Charlottetown vacancy of 2.2% in October 2020, an increase of 100 bps from October 2019, as the market appears to be responding to 1,100 new units entering the market in 2020, with only 415 absorbed in the year.

Ontario

Killam's Ontario apartment portfolio generated 17% of NOI in 2020. RBC's December 2020 Provincial Outlook reported Ontario experienced the largest economic contraction in history, a decline of 5.6%, as a result of extended and frequent lockdowns throughout the province. However, Ontario's economy is expected to lead all provinces in terms of growth in 2021, with immunization ramping up, an annual growth rate of 5.5% is projected. Overall, Ontario vacancy per CMHC was 3.2% for October 2020, up from 2.0% in October 2019.

Ottawa
According to CMHC's 2020 Rental Market Report, Ottawa's vacancy rates have risen to 3.9% compared to 1.8% in October 2019, as survey estimates indicate the number of newly occupied units increased by 887, while supply was nearly double at 2,316 units. The vacancy rate rose more significantly in centrally located areas as compared to outer suburban areas, as a result of reduced student and young professionals demand for units in the city's core. Despite increased vacancy, rents grew for all bedroom types, with average rent for a two-bedroom unit increasing 5.2%.

Kitchener-Waterloo-Cambridge
Known as Canada's Silicon Valley since the 1980s, the region saw vacancy rates decrease between 2014 and 2017 from 3.0% to a low of 1.9% in October 2017. In October 2020, CMHC reported vacancy of 2.1% unchanged compared to October 2019, with 2,422 new units entering the market in 2020. Vacancy rates declined in most zones, however, Waterloo's vacancy rate increased from 1.6% in October 2019 to 2.9% in October 2020, due to newly added units and pandemic related online study. CMHC attributes steady rental demand during 2020 to Canadian Emergency Response Benefit and Employment Insurance payments allowing tenants to continue paying rent.

London
The London primary rental market saw an increase in overall vacancy, from 1.8% in 2019 to 3.4% in 2020, as CMHC reported new supply was met with absent demand. CMHC's 2020 Rental Market Report reported a decline in net international migration levels as the driving force for lack of demand for new units.

Greater Toronto Area
According to CMHC's 2020 Report, GTA's vacancy rate increased from 1.5% in 2019 to 3.4% in 2020. The highest vacancy rates are located in Toronto's downtown core, with bachelor units at 5.5% vacancy, as COVID-19 restrictions have increased desire for larger and less centrally located units. The pandemic resulted in muted immigration in the GTA, with the closure of international borders impacting population growth, with 30,000 fewer immigrants and 11,000 fewer non-permanent residents in Q2-2020 compared to Q2-2019.

Alberta
Seven percent of Killam's NOI was earned in Alberta. RBC's December 2020 Provincial Outlook reported Alberta experienced the worst one-year decline on record, projecting an 8.3% decline in Alberta's economy. Recovery of Alberta's economy is expected to take longer than most Canadian provinces, while 4.5% growth is projected for 2021, RBC predicts it could take until 2023 to fully reverse 2020's damage. Increased oil production and capital investments into the energy sector are expected to have positive impacts on the economy in 2021.

Calgary
In its 2020 Rental Market Report, CMHC reported 6.6% vacancy for Calgary, up from 3.9% in October 2019, as economic downturn weakened demand. Calgary experienced weakened demand due to increased rental supply, job losses due to the COVID-19 pandemic and the eroded oil market, and negative net migration as a result of an outflow of interprovincial migration and reduced immigration. Average rent remains consistent with October 2019, indicating landlords are keeping rental rates the same while incentivizing tenants through non-price measures to remain competitive, such as free utilities, cash bonuses and free rent.

Edmonton
In Edmonton, CMHC reported 7.2% vacancy in October 2020, versus 4.9% in October 2019, with stable average rent year-over-year. Vacancy was higher in the city centre as well as among newly constructed units, which had an average rent 31.2% higher than existing units of all ages. These higher rents resulted in increased vacancy among newer units, reporting a vacancy rate of 12.0% in October 2020. CMHC reported demand for rental units has weakened over the past year as a result of the pandemic and the drop in oil prices, with over 121,000 jobs lost in the first half of 2020.

British Columbia
Killam entered the BC market in 2020, which made up 2% of NOI in the year. RBC's December 2020 Provincial Outlook projects a 5.3% contraction in BC's GDP for 2020, with positive outlook for 2021. Despite the pandemic, work on major capital projects in the province continued with minimal disruption in 2020, including construction on the Coastal GasLink pipeline and the LNG Kitimat project. The LNG Kitimat project is expected to hit its peak construction phase in 2021, creating 3,000 jobs. RBC expects strong capital investment and a rebound in major industrial sectors in 2021, predicting a 33-year high growth rate of 5.1%.

CMHC reported 2.2% vacancy for Victoria in October 2020, compared to 1.0% in October 2019. Rental demand slowed as the COVID-19 pandemic resulted in economic downturn and virtual working/schooling allowed renters to move further away from the city's core or combine households for affordability.

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

PART IV
2020 Financial Overview

Consolidated Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$261,690**	$242,164	8.1%	**$232,074**	$227,577	2.0%	**$29,616**	$14,587	103.0%
Property operating expenses									
General operating expenses	**41,610**	37,602	10.7%	**35,876**	34,616	3.6%	**5,734**	2,986	92.0%
Utility and fuel expenses	**23,240**	23,515	(1.2)%	**20,968**	22,293	(5.9)%	**2,272**	1,222	85.9%
Property taxes	**32,178**	28,711	12.1%	**27,858**	26,638	4.6%	**4,320**	2,073	108.4%
Total operating expenses	**$97,028**	$89,828	8.0%	**$84,702**	$83,547	1.4%	**$12,326**	$6,281	96.2%
NOI	**$164,662**	$152,336	8.1%	**$147,372**	$144,030	2.3%	**$17,290**	$8,306	108.2%
Operating margin %	**62.9%**	62.9%	— bps	**63.5%**	63.3%	20 bps	**58.4%**	56.9%	150 bps

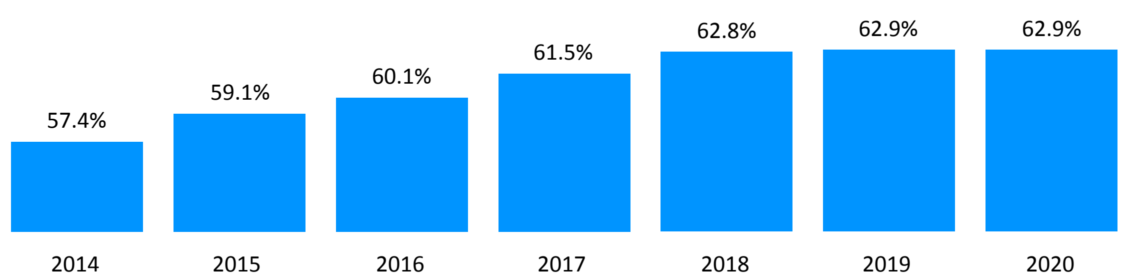
The resiliency of Killam's portfolio drove same property NOI growth for the year ended December 31, 2020. This strength, along with contributions from acquisitions and developments, resulted in 8.1% NOI growth for the year.

Same property results included properties owned during comparable 2020 and 2019 periods and represent 90.3% of the fair value of Killam's investment property portfolio as at December 31, 2020. Non-same property results include acquisitions, dispositions and developments completed in 2019 and 2020 and commercial assets acquired for future residential development.

Same property revenue grew by 2.0% for the year ended December 31, 2020, as compared to the same period of 2019. Same property revenue growth in 2020 was lower than recent years due to the impact of COVID-19, including decreased revenue at Killam's seasonal MHC resorts as a result of delayed spring openings and lower transient revenue, lower rental rate increases on renewals, and participation in the CECRA program for commercial tenants. Despite these short-term pandemic related impacts, strong rental rate growth on unit turns and continued strength in Killam's core markets generated overall same property revenue growth.

Total same property operating expenses increased 1.4% for the year ended December 31, 2020. The increase was largely driven by a 4.6% increase in property taxes as a result of higher assessments, which Killam actively appeals whenever possible, offset by a 5.9% decrease in utility and fuel expenses as a result of reduced consumption from energy efficiency projects, decreases in natural gas pricing across Killam's three largest regions and a decrease in the inclusion of unit electricity as part of the monthly rent. Overall, same property NOI grew by 2.3% for the year ended December 31, 2020.

Operating Margin %



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

Apartment Results

For the years ended December 31,

	Total			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$228,915**	$211,558	8.2%	**$207,282**	$202,489	2.4%	**$21,633**	$9,069	138.5%
Property operating expenses									
General operating expenses	**34,269**	30,689	11.7%	**31,124**	29,363	6.0%	**3,145**	1,326	137.2%
Utility and fuel expenses	**20,537**	21,081	(2.6)%	**19,201**	20,574	(6.7)%	**1,336**	507	163.5%
Property taxes	**27,961**	25,050	11.6%	**25,287**	24,228	4.4%	**2,674**	822	225.3%
Total operating expenses	**$82,767**	$76,820	7.7%	**$75,612**	$74,165	2.0%	**$7,155**	$2,655	169.5%
NOI	**$146,148**	$134,738	8.5%	**$131,670**	$128,324	2.6%	**$14,478**	$6,414	125.7%
Operating margin %	**63.8%**	63.7%	10 bps	**63.5%**	63.4%	10 bps	**66.9%**	70.7%	(380) bps

Apartment Revenue

Total apartment revenue for the year ended December 31, 2020, was $228.9 million, an increase of 8.2% over the same period of 2019. Revenue growth was augmented by contributions from recently acquired and developed properties and higher rental rates.

Same property apartment revenue increased 2.4% for the year ended December 31, 2020, driven by increased rental rates, partially offset by a 40 bps decrease in occupancy. Killam's tenant base includes a diverse mix of tenants, including young professionals, seniors, empty nesters, families, and students. Since the onset of COVID-19, Killam has experienced relatively stable occupancy in most of its markets, however, Killam has seen increased vacancy in St. John's, Kanata (Ottawa) and downtown Calgary.

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

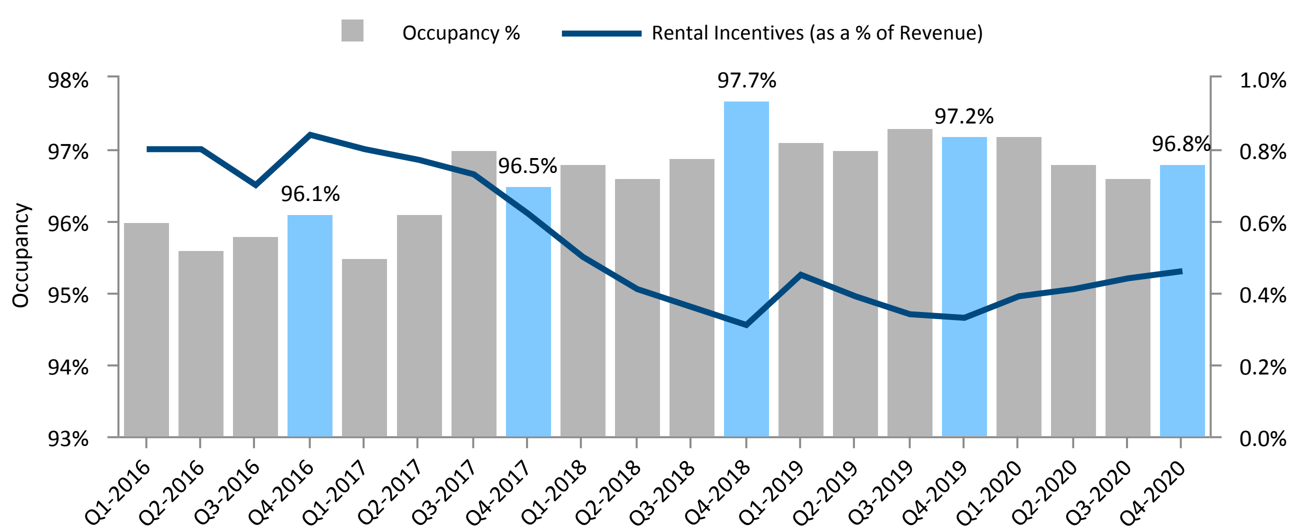
Apartment Occupancy Analysis by Core Market (% of Residential Rent) (1)

		Total Occupancy			Same Property Occupancy		
For the years ended December 31,	# of Units	**2020**	2019	Change (bps)	**2020**	2019	Change (bps)
Nova Scotia							
Halifax	5,814	**97.8%**	98.3%	(50)	**97.8%**	98.3%	(50)
Ontario							
Ottawa (2)	1,216	**94.1%**	93.0%	110	**93.7%**	96.6%	(290)
London	523	**96.8%**	97.5%	(70)	**96.8%**	97.5%	(70)
Cambridge-GTA	818	**98.0%**	98.5%	(50)	**98.1%**	98.5%	(40)
New Brunswick							
Moncton	2,073	**98.1%**	98.3%	(20)	**98.5%**	98.3%	20
Fredericton	1,529	**97.8%**	97.9%	(10)	**97.9%**	97.9%	—
Saint John	1,202	**96.7%**	96.8%	(10)	**96.7%**	96.8%	(10)
Newfoundland and Labrador							
St. John's	915	**87.6%**	91.5%	(390)	**87.6%**	91.5%	(390)
Prince Edward Island							
Charlottetown (3)	1,064	**97.0%**	99.5%	(250)	**99.4%**	99.4%	—
Alberta							
Calgary	531	**94.4%**	94.7%	(30)	**95.2%**	94.5%	70
Edmonton	579	**93.5%**	89.8%	370	**94.8%**	89.8%	500
British Columbia							
Victoria (4)	315	**95.3%**	N/A	N/A	**N/A**	N/A	N/A
Other Atlantic	469	**93.8%**	97.1%	(330)	**93.8%**	97.1%	(330)
Total Apartments (weighted average)	**17,048**	**96.5%**	97.0%	(50)	**96.8%**	97.2%	(40)

(1) Occupancy as a percentage of residential rent is calculated as vacancy (in dollars) divided by gross potential residential rent (in dollars) for the period.
(2) Same property occupancy in Ottawa is down year-over-year as a result of vacancy at Killam's Kanata properties, related to new product delivered to the market in the area during Q4-2019.
(3) Total occupancy for Charlottetown was impacted by Shorefront, a recently completed 78-unit building, which opened in Q4-2020 and is in the initial lease-up phase.
(4) Killam owns two assets in Victoria, BC, one of which was undergoing initial lease-up during 2020, impacting total occupancy during the year.

For a detailed discussion on changes in occupancy levels during the quarter, refer to page 24 of this MD&A under section "Apartment Same Property NOI by Region".

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



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

Average Rent Analysis by Core Market

As at December 31,

		Average Rent			Same Property Average Rent		
	# of Units	**2020**	2019	% Change	**2020**	2019	% Change
Nova Scotia							
Halifax	5,814	**$1,184**	$1,140	3.9%	**$1,184**	$1,140	3.9%
Ontario							
Ottawa	1,216	**$1,798**	$1,753	2.6%	**$1,762**	$1,712	2.9%
London	523	**$1,371**	$1,314	4.3%	**$1,371**	$1,314	4.3%
Cambridge-GTA	818	**$1,556**	$1,493	4.2%	**$1,570**	$1,505	4.3%
New Brunswick							
Moncton	2,073	**$1,046**	$926	13.0%	**$933**	$894	4.4%
Fredericton	1,529	**$1,064**	$1,018	4.5%	**$1,046**	$999	4.7%
Saint John	1,202	**$882**	$844	4.5%	**$882**	$844	4.5%
Newfoundland and Labrador							
St. John's	915	**$1,006**	$992	1.4%	**$1,006**	$992	1.4%
Prince Edward Island							
Charlottetown	1,064	**$1,080**	$1,011	6.8%	**$1,025**	$1,011	1.4%
Alberta							
Calgary	531	**$1,263**	$1,241	1.8%	**$1,288**	$1,266	1.7%
Edmonton	579	**$1,476**	$1,484	(0.5)%	**$1,441**	$1,449	(0.6)%
British Columbia							
Victoria	315	**$1,729**	N/A	N/A	**N/A**	N/A	N/A
Other Atlantic	469	**$924**	$910	1.5%	**$924**	$910	1.5%
Total Apartments (weighted average)	**17,048**	**$1,184**	$1,126	5.2%	**$1,150**	$1,112	3.4%

Same Property Rental Increases – Tenant Renewals versus Unit Turns

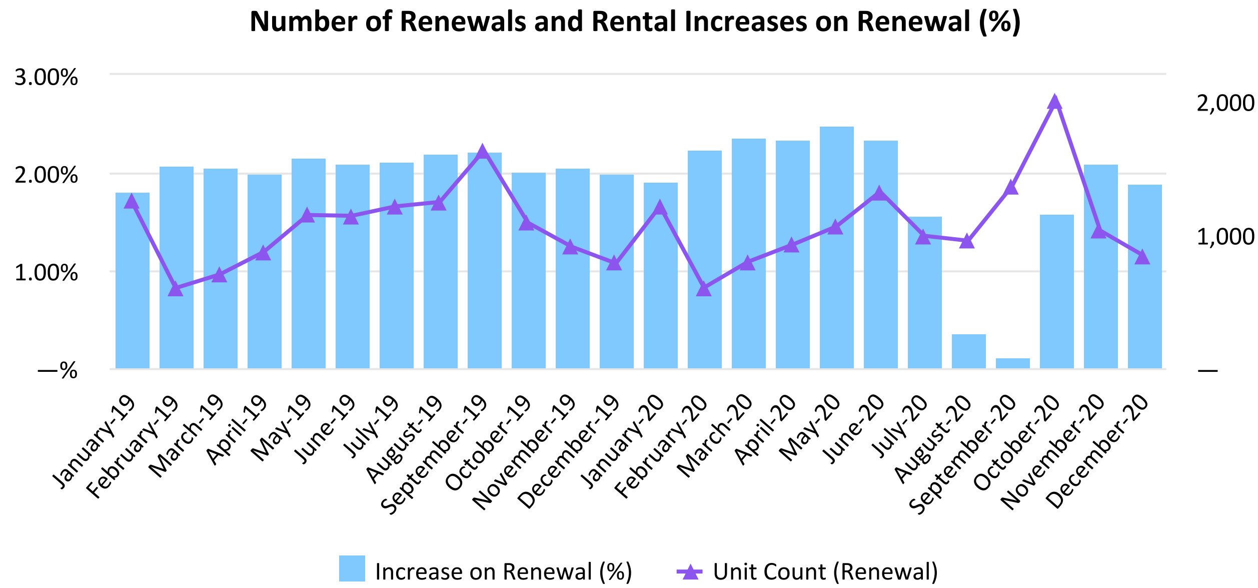
Killam typically turns approximately 30% to 32% of its units each year, with the trend declining in recent years, including 2020, where turnover levels were down 160 bps from 2019, at approximately 29%. Upon turn, Killam will typically generate rental increases by moving rental rates to market and, where market demand exists, by upgrading units for unlevered returns of 10%–15% on capital invested. During 2020, Killam saw a 20 bps decline in its same property weighted average rental rate increase, to 3.4%, compared to 3.6% for the same period of 2019. This decline was driven by lower rental increases on lease renewals as noted in the chart below.

For the years ended December 31,	2020		2019	
	Rental Increases	Turnovers & Renewals (1)	Rental Increases	Turnovers & Renewals (1)
Lease renewal	**1.7%**	**71.2%**	2.1%	69.6%
Unit turn – regular	**5.7%**	**26.3%**	5.8%	28.5%
Unit turn – repositioned(2)	**27.3%**	**2.5%**	28.5%	1.9%
Rental increase (weighted avg)	**3.4%**		3.6%	

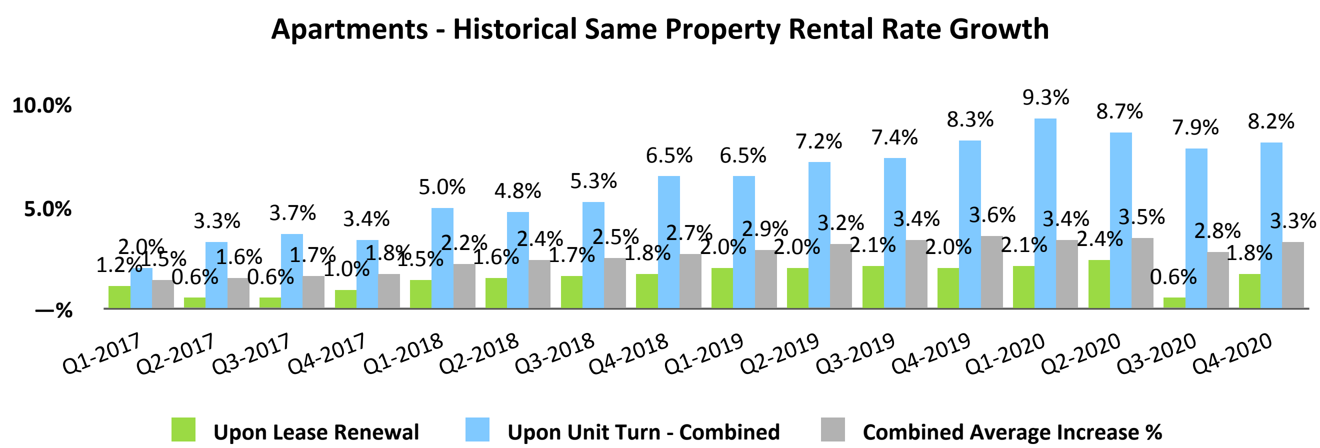
(1) The percentage of total units renewed and turned during the year is based on the number of units at the end of the year.

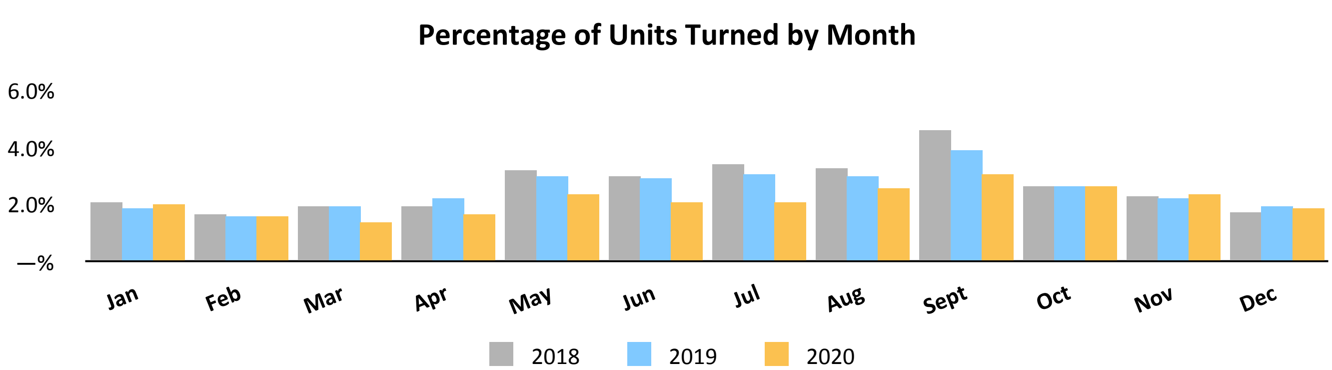
(2) The weighted average rental lift on the units repositioned is based on the 495 units re-leased during the year ended December 31, 2020.

Due to the economic uncertainty facing many Canadians during the emergency measures associated with the pandemic, Killam waived the collection of rental increases from April to July 2020 for lease renewals with increases being reinstated beginning in August or September for most properties. Killam also delayed distribution of rental increase notices to tenants between March and May 2020. As the required notice period to increase rents is a minimum of three months in most provinces across Canada, Killam did not begin collecting rental increases pertaining to these notices until Q4-2020. It was these measures to assist Killam's tenants during the height of the pandemic that resulted in a decline in rental increases on lease renewal in 2020.



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





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

Apartment Expenses

Total operating expenses for the year ended December 31, 2020, were $82.8 million, a 7.7% increase over the same period of 2019, due primarily to incremental costs associated with recent acquisitions and developments, property taxes and general operating expense increases. The operating margin increased 10 bps, as lower utility costs and revenue optimization more than offset incremental operating costs.

Total apartment same property operating expenses for the year ended December 31, 2020, were 2.0% higher than the same period of 2019. The increase was driven by increased wages for front-line staff, higher insurance premiums, and property tax expense increases of 4.4%, over the same period of 2019. These increases were partially offset by decreased utility costs of 6.7%. These savings are attributable to lower natural gas pricing and consumption savings as a result of energy-efficiency initiatives and lower unit electricity costs.

Apartment Utility and Fuel Expenses – Same Property

For the years ended December 31,	**2020**	2019	% Change
Natural gas	**$5,770**	$6,849	(15.8)%
Electricity	**6,970**	7,203	(3.2)%
Water	**5,471**	5,116	6.9%
Oil & propane	**936**	1,350	(30.7)%
Other	**54**	56	(3.6)%
Total utility and fuel expenses	**$19,201**	$20,574	(6.7)%

Killam's apartments are heated with natural gas (58%), electricity (33%), oil (5%), steam (2%), geothermal (2%) and propane (less than 1%). Electricity costs relate primarily to common areas, as unit electricity costs are typically paid by tenants, reducing Killam's exposure to the majority of Killam's 5,500 apartments heated with electricity. Fuel costs associated with central natural gas or oil-fired heating plants are paid by Killam.

Utility and fuel expenses accounted for approximately 25% of Killam's total apartment same property operating expenses for the year ended December 31, 2020. Total same property utility and fuel expenses decreased 6.7% for the year ended December 31, 2020.

Same property natural gas expense decreased by 15.8% for the year ended December 31, 2020. The decrease in natural gas expense was primarily attributable to decreases in commodity prices in Nova Scotia and Ontario of 22% and 18%, as well as a reduction in both delivery charges and commodity price in New Brunswick, resulting in a 6% decline in that province for the year. Increased efficiencies from boiler upgrades as well as above-average temperatures during the heating seasons also contributed to reduced consumption levels.

Electricity costs were 3.2% lower for the year ended December 31, 2020, primarily due to a reduction of unit electricity being included as part of a tenant's monthly rent in certain regions given strong market fundamentals, more than offsetting rising rates.

Water expense increased by 6.9% for the year ended December 31, 2020. The increase is primarily due to increased consumption as a result of tenants being at home more during the COVID-19 pandemic.

Heating oil and propane costs decreased by 30.7% for the year ended December 31, 2020, compared to the same period of 2019, as a result of lower oil prices.

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

Apartment Same Property NOI by Region

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Nova Scotia									
Halifax	**$82,012**	$79,480	3.2%	**($27,920)**	($27,756)	0.6%	**$54,092**	$51,724	4.6%
	82,012	79,480	3.2%	**(27,920)**	(27,756)	0.6%	**54,092**	51,724	4.6%
Ontario									
Ottawa	**12,817**	12,878	(0.5)%	**(4,271)**	(4,130)	3.4%	**8,546**	8,748	(2.3)%
London	**8,239**	7,972	3.3%	**(2,852)**	(2,679)	6.5%	**5,387**	5,293	1.8%
Cambridge-GTA	**14,657**	14,275	2.7%	**(4,851)**	(4,484)	8.2%	**9,806**	9,791	0.2%
	35,713	35,125	1.7%	**(11,974)**	(11,293)	6.0%	**23,739**	23,832	(0.4)%
New Brunswick									
Moncton	**18,666**	18,177	2.7%	**(8,080)**	(8,091)	(0.1)%	**10,586**	10,086	5.0%
Fredericton	**17,800**	17,123	4.0%	**(7,054)**	(6,933)	1.7%	**10,746**	10,190	5.5%
Saint John	**12,432**	12,030	3.3%	**(5,738)**	(5,829)	(1.6)%	**6,694**	6,201	8.0%
	48,898	47,330	3.3%	**(20,872)**	(20,853)	0.1%	**28,026**	26,477	5.9%
Newfoundland & Labrador									
St. John's	**9,770**	10,044	(2.7)%	**(3,401)**	(3,115)	9.2%	**6,369**	6,929	(8.1)%
	9,770	10,044	(2.7)%	**(3,401)**	(3,115)	9.2%	**6,369**	6,929	(8.1)%
Prince Edward Island									
Charlottetown	**11,916**	11,748	1.4%	**(4,800)**	(4,729)	1.5%	**7,116**	7,019	1.4%
	11,916	11,748	1.4%	**(4,800)**	(4,729)	1.5%	**7,116**	7,019	1.4%
Alberta									
Calgary	**5,837**	5,928	(1.5)%	**(1,933)**	(1,824)	6.0%	**3,904**	4,104	(4.9)%
Edmonton	**7,898**	7,506	5.2%	**(2,726)**	(2,604)	4.7%	**5,172**	4,902	5.5%
	13,735	13,434	2.2%	**(4,659)**	(4,428)	5.2%	**9,076**	9,006	0.8%
Other Atlantic locations	**5,238**	5,328	(1.7)%	**(1,986)**	(1,991)	(0.3)%	**3,252**	3,337	(2.5)%
	$207,282	$202,489	2.4%	**($75,612)**	($74,165)	2.0%	**$131,670**	$128,324	2.6%

Halifax

Halifax is Killam's largest rental market, contributing approximately 41% of apartment same property NOI for the year ended December 31, 2020. Same property apartment revenue increased 3.2% for the year ended December 31, 2020, as a result of a 3.9% increase in average rental rates, partially offset by an uptick in vacancy and the waiving of rental increases for April, May, June and July.

Total operating expenses for the year ended December 31, 2020, were 0.6% higher than the same period of 2019. Expense growth in the period was nominal as increased insurance premiums and higher realty taxes were mostly offset by reduced utility costs. The net impact was a 4.6% increase in NOI for the year ended December 31, 2020.

Ontario

Killam's Ontario portfolio generated approximately 18% of apartment same property NOI for the year ended December 31, 2020. Revenue increased by 1.7%, driven by a 3.6% increase in average rental rates, partially offset by a decrease in occupancy. Overall, the decrease in occupancy can be attributed to the reduction in immigration and lockdown measures in Ontario, as a result of the COVID-19 pandemic. In addition, the decline in Ottawa was further impacted by increased supply in the immediate neighbourhood to Killam's Kanata assets in late 2019. Management expects to see quarter-over-quarter gains in 2021.

Total operating expenses increased 6.0% for the year ended December 31, 2020, compared to the same period of 2019. This was primarily due to higher utility costs as a result of increased electricity and water consumption, increased realty taxes and higher front-line staffing costs for increased compensation related to COVID-19. In aggregate, same property NOI decreased 0.4% for the year ended December 31, 2020.

New Brunswick

Killam's apartments in Moncton, Fredericton and Saint John accounted for approximately 21% of apartment same property NOI for the year ended December 31, 2020. In aggregate, same property revenue increased 3.3% for the year ended December 31, 2020, following rental rate growth in Fredericton, Saint John and Moncton of 4.7%, 4.5% and 4.4%, respectively, partially offset by a slight uptick in vacancy in Saint John for the year.

For the year ended December 31, 2020, total operating expenses increased a modest 0.1% compared to the same period of 2019. A reduction in utility costs as a result of lower natural gas pricing and reduced unit electricity costs was offset by salary increases for front-line workers and higher insurance premiums and realty taxes. Overall, New Brunswick achieved an impressive 5.9% increase in same property NOI for the year ended December 31, 2020.

Newfoundland and Labrador

Killam's St. John's properties accounted for approximately 5% of apartment same property NOI for the year ended December 31, 2020. Same property revenue decreased 2.7% compared to the same period of 2019. While rental rates increased by 1.4%, occupancy was 390 bps lower year-over-year. Lower occupancy in the region is due to economic pressure that has been further impacted by COVID-19. The region has seen reduced activity in the offshore oil sector as well as declines in other natural resource sectors, on which the Newfoundland economy is heavily reliant.

Total operating expenses for the year ended December 31, 2020, were 9.2% higher than the same period of 2019. The increase in operating expenses was primarily due to higher staffing costs related to an expansion of the property management and leasing teams and higher insurance premiums. In aggregate, same property NOI was 8.1% lower for the year ended December 31, 2020.

Prince Edward Island

Killam's Charlottetown portfolio contributed approximately 5% of apartment same property NOI for the year ended December 31, 2020. Overall, Charlottetown achieved 1.4% revenue growth attributable to rental rate growth as occupancy levels remained strong at over 99%.

Total operating expenses for the year ended December 31, 2020, were 1.5% higher compared to the same period of 2019. The increase in operating expenses was primarily due to higher realty taxes and insurance premiums, slightly offset by lower oil costs. Overall, Charlottetown achieved a 1.4% increase in NOI for the year ended December 31, 2020, compared to the same period of 2019.

Alberta

Killam's Calgary properties accounted for approximately 3% of apartment same property NOI for the year ended December 31, 2020. Calgary same property revenue decreased 1.5%, compared to the same period of 2019, despite rental rate growth of 1.7% and a 70 bps increase in occupancy, due to decreased parking revenue at Killam's downtown Calgary asset (Grid 5) and increased rental incentive offerings. Total operating expenses for the year ended December 31, 2020, increased 6.0%, due to increased staffing costs, higher realty taxes and increased utility costs. Overall, Calgary realized decreased NOI of 4.9% for the year ended December 31, 2020.

Killam's Edmonton portfolio accounted for 4% of apartment same property NOI for the year ended December 31, 2020. Same property revenues increased 5.2%, as a result of a 500 bps increase in occupancy. Total operating expenses increased 4.7% for the year ended December 31, 2020. The increase in operating expenses was primarily due to the addition of on-site leasing staff, higher realty taxes and higher utility costs as a result of increased water consumption. Overall, Edmonton achieved increased NOI of 5.5% for the year ended December 31, 2020.

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

MHC Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$17,393**	$16,806	3.5%	**$16,663**	$16,800	(0.8)%	**$730**	$6	N/A
Property operating expenses	**6,541**	6,342	3.1%	**6,158**	6,270	(1.8)%	**383**	72	N/A
NOI	**$10,852**	$10,464	3.7%	**$10,505**	$10,530	(0.2)%	**$347**	($66)	N/A
Operating margin %	**62.4%**	62.3%	10 bps	**63.0%**	62.7%	30 bps	**47.5%**	—%	—

The MHC business segment generated 6.5% of Killam's NOI for the year ended December 31, 2020. Overall, same property NOI decreased by 0.2% for the year ended December 31, 2020, due to a short-term decline in income from Killam's seasonal resort portfolio as a result of COVID-19. The following table breaks down the same property revenue, expenses and NOI generated by Killam's permanent MHCs and seasonal resorts during the year.

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Permanent MHCs	**$11,800**	$11,493	2.7%	**($4,222)**	($4,156)	1.6%	**$7,578**	$7,337	3.3%
Seasonal Resorts	**4,863**	5,307	(8.4)%	**($1,936)**	($2,114)	(8.4)%	**2,927**	3,193	(8.3)%
	$16,663	$16,800	(0.8)%	**($6,158)**	($6,270)	(1.8)%	**$10,505**	$10,530	(0.2)%

For the year ended December 31, 2020, same property permanent MHCs generated a 3.3% increase in NOI, with average rent increasing 2.2% in Q4-2020, to $278 per site compared to $272 per site in Q4-2019. Combined permanent and seasonal MHC average rent decreased by 0.8%, to $260 per site in 2020 from $262 per site in 2019, and occupancy remained stable at 97.8%, consistent with 2019.

Killam's nine seasonal resorts were impacted by restrictions put into place by public health officials to curb the spread of COVID-19. As a result, Killam delayed opening its seasonal resorts and also had restrictions in place on transient camping, resulting in a 8.4% decrease in same property revenue for the year ended December 31, 2020 compared to the same period of 2019. Travel restrictions associated with the quarantine requirements for travellers from outside Atlantic Canada also contributed to lower revenue at Killam's New Brunswick seasonal resorts. The reduction in seasonal revenue was partially offset by lower same property operating expenses, which decreased 8.4% primarily due to decreased administration costs.

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

Commercial Results

For the years ended December 31,	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$15,382**	$13,800	11.5%	**$8,129**	$8,288	(1.9)%	**$7,253**	$5,512	31.6%
Property operating expenses	**7,720**	6,666	15.8%	**2,932**	3,111	(5.8)%	**4,788**	3,555	34.7%
NOI	**$7,662**	$7,134	7.4%	**$5,197**	$5,177	0.4 %	**$2,465**	$1,957	26.0%

Killam's commercial property portfolio contributed $7.7 million, or 4.7%, of Killam's total NOI for the year ended December 31, 2020. Killam's commercial property portfolio contains 749,661 SF, located in four of Killam's core markets. Commercial same property results represent 45.6% of Killam's commercial square footage and consist of Westmount Place located in Waterloo and three commercial properties, one of which is Killam's head office, located in Halifax, NS. Same property results do not include properties that were recently acquired or those that are slated for redevelopment and not operating as stabilized properties.

Total commercial occupancy on a per square foot basis was 91% as at December 31, 2020. Occupancy levels reflect the continued redevelopment of the Brewery Market in Halifax, which is currently 85.2% leased. The decline in same property commercial revenue during 2020 was driven by increased vacancy and participation in the CECRA program. During 2020, Killam filed CECRA applications for approximately 40 commercial tenants and recorded a total reduction in commercial revenue of $0.3 million related to the program. Killam continues to work with tenants that did not qualify for CECRA on a case-by-case basis, and in certain cases has agreed to temporary rent deferrals for 60 to 90 days.

Killam self-manages its wholly owned commercial properties. Killam's commercial leasing activity has continued throughout 2020, successfully leasing a net new 39,000 square feet of commercial space across the portfolio during the year. Killam has also renewed 40,000 square feet of commercial space during 2020, with a weighted average net rate increase of 4.5%.

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

PART V
Other Income and Expenses
Other Income

For the years ended December 31,

	2020	2019	% Change
	$641	$6,059	(89.4)%

Other income includes property management fees for jointly held properties, interest on bank balances, and net revenue associated with the sale of homes in Killam's MHC segment. The 89.4% decrease for the year ended December 31, 2020, was due primarily to net insurance proceeds received in late 2019 related to a fire that occurred in July 2019 at a 29-unit apartment building and leasing fees earned in 2019 from the lease-up of the Frontier development.

Financing Costs

For the years ended December 31,

	2020	2019	% Change
Mortgage, loan and construction loan interest	**$44,055**	$41,954	5.0%
Interest on credit facilities	**671**	1,266	(47.0)%
Interest on Exchangeable Units	**2,784**	2,727	2.1%
Amortization of deferred financing costs	**3,126**	3,093	1.1%
Amortization of fair value adjustments on assumed debt	**88**	137	(35.8)%
Unrealized loss on derivative liability	**483**	235	105.5%
Interest on lease liabilities	**385**	298	29.2%
Capitalized interest	**(2,673)**	(2,267)	17.9%
	$48,919	$47,443	3.1%

Total financing costs increased $1.5 million, or 3.1%, for the year ended December 31, 2020, as compared to the same period of 2019.

Mortgage, loan and construction loan interest expense was $44.1 million for the year ended December 31, 2020, an increase of $2.1 million, or 5.0%, compared to the same period of 2019. Killam's mortgage, loan and construction loan liability balance increased by $209.9 million over the past twelve months as Killam up-financed maturing mortgages within its existing portfolio and obtained financing for acquisitions and developments. The average interest rate on refinancings for the year ended December 31, 2020, was 1.83%, 85 bps lower than the average interest rate on expiring debt.

Deferred financing costs include mortgage assumption fees, application fees and legal costs related to financings and refinancings. These costs are amortized over the term of the respective mortgages. CMHC insurance fees are amortized over the amortization period of the mortgage. Deferred financing amortization costs increased 1.1% for the year ended December 31, 2020, following mortgage refinancings and debt placement related to property acquisitions over the past twelve months. This expense may fluctuate annually with refinancings.

Capitalized interest increased $0.4 million for the year ended December 31, 2020, compared to the same period of 2019. Capitalized interest will vary depending on the number of development projects underway and their stages in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

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

Depreciation Expense

For the years ended December 31,			
	2020	2019	% Change
	$630	$720	(12.5)%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment, office furniture, fixtures and computer equipment. Although the vehicles and equipment are used at various properties, they are not considered investment properties and are depreciated for accounting purposes.

Administration Expenses

For the years ended December 31,	**2020**	2019	% Change
Administration	**$14,745**	$14,881	(0.9)%
As a percentage of total revenues	**5.6%**	6.0%	(40) bps

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

For the year ended December 31, 2020, total administration expenses decreased by 0.9%, compared to the same period of 2019, due to lower restricted trust unit ("RTU") expense and travel related costs. Administration expenses as a percentage of total revenues were 5.6% for 2020, 40 bps lower than 2019.

Fair Value Adjustments

For the years ended December 31,	**2020**	2019	% Change
Investment properties	**$46,885**	$244,130	(80.8)%
Deferred unit-based compensation	**59**	(1,590)	103.7%
Exchangeable units	**7,676**	(12,461)	161.6%
	$54,620	$230,079	(76.3)%

Killam recognized $46.9 million in fair value gains related to investment properties for the year ended December 31, 2020, compared to $244.1 million in fair value gains for the year ended December 31, 2019. During 2020, Killam recognized a fair value gain of $53.8 million related to the apartment portfolio due to cap-rate compression, strong demand for units and increased NOI, $1.8 million in fair value gains on its MHC portfolio and a net $6.1 million gain related to IPUC and land held for future development. These gains were partially offset by fair value losses related to Killam's commercial portfolio of $14.9 million.

Due to the ongoing impact of COVID-19, it is not possible to forecast with certainty the duration and full scope of the economic impact and other consequential changes it will have on Killam's business and operations, both in the short term and in the medium term. Certain aspects of Killam's business and operations that could potentially be impacted include market rents, collection of rental income, and occupancy, which all could ultimately impact NOI and the underlying valuation of investment properties.

RTUs governed by Killam's RTU Plan are awarded to certain members of Management as a portion of their compensation. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs. This aligns the interests of Management and the Trustees with those of unitholders. For the year ended December 31, 2020, there was an unrealized fair value gain of $0.1 million, versus a $1.6 million loss in the same period of 2019, due to changes in the market price of the underlying Killam trust units.

Distributions paid on exchangeable units are consistent with distributions paid to Killam's unitholders. The exchangeable units are redeemable on a one-for-one basis into trust units at the option of the holder. The fair value of the exchangeable units is based on the trading price of Killam's trust units. For the year ended December 31, 2020, there was an unrealized gain of $7.7 million, compared to an unrealized loss of $12.5 million in the same period of 2019, due to changes in the market price of Killam's trust units.

Deferred Tax Expense

For the years ended December 31,	**2020**	2019	% Change
	$9,590	$40,636	(76.4)%

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

Killam's deferred tax expense decreased $31.0 million for the year ended December 31, 2020, compared to the same period of 2019, primarily due to a reduction in the Nova Scotia provincial tax rate and reduction in fair value gains on investment properties year-over-year.

PART VI

Per Unit Calculations

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

	Weighted Average Number of Units (000s)			**Outstanding Number of Units (000s) as at December 31,**
For the years ended December 31,	**2020**	2019	% Change	**2020**
Trust units	**100,225**	91,565	9.5%	**103,212**
Exchangeable units	**4,115**	4,154	(0.9)%	**4,102**
Basic number of units	**104,340**	95,719	9.0%	**107,314**
Plus:				
Units under RTU plan	**163**	195	(16.4)%	—
Diluted number of units	**104,503**	95,914	9.0%	—

Funds from Operations

FFO are recognized as an industry-wide standard measure of real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. REALPAC, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. Killam calculates FFO in accordance with the REALPAC definition. Notwithstanding the foregoing, FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. FFO for the year ended December 31, 2020 and 2019 are calculated as follows:

For the years ended December 31,	**2020**	2019	% Change
Net income	**$146,040**	$283,525	(48.5)%
Fair value adjustments	**(54,620)**	(230,079)	(76.3)%
Non-controlling interest	**(16)**	11	(245.5)%
Internal commercial leasing costs	**264**	317	(16.7)%
Deferred tax expense	**9,566**	40,636	(76.5)%
Interest expense on exchangeable units	**2,784**	2,727	2.1%
Net insurance proceeds	**—**	(5,022)	(100.0)%
Loss on disposition	**—**	1,257	(100.0)%
Unrealized loss on derivative liability	**483**	235	(105.5)%
Depreciation on owner-occupied building	**146**	147	(0.7)%
Change in principal related to lease liabilities	**31**	130	(76.2)%
FFO	**$104,678**	$93,884	11.5%
FFO per unit – basic	**$1.00**	$0.98	2.0%
FFO per unit – diluted	**$1.00**	$0.98	2.0%
Weighted average number of units – basic (000s)	**104,340**	95,719	9.0%
Weighted average number of units – diluted (000s)	**104,503**	95,914	9.0%

Killam earned FFO of $104.7 million, or $1.00 per unit (diluted), for the year ended December 31, 2020, compared to $93.9 million, or $0.98 per unit (diluted), for the year ended December 31, 2019. FFO growth is primarily attributable to contributions from acquisitions and completed developments ($6.3 million), same property NOI growth ($3.1 million) and lower interest costs ($1.0 million). These increases were partially offset by a 9.0% increase in the weighted average number of units outstanding.

Adjusted Funds from Operations

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

Details of Killam's total actual capital expenditures by category are included in the Capital Improvements section on page 39, and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 46 of this MD&A.

Calculating Maintenance Capex Reserve for AFFO

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

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

Maintenance Capex Reserve - Apartments

		2020	2019	2018
Total capital investments		$57,961	$52,861	$39,912
Value-enhancing capital investment				
	Building	(14,055)	(17,407)	(13,004)
	Suite upgrades	(22,956)	(18,718)	(12,361)
	Equipment & other	(7,704)	(1,987)	(866)
		(44,715)	(38,112)	(26,231)
Maintenance capex		**$13,246**	**$14,749**	**$13,681**
Maintenance capex - % of total capital		23%	28%	34%
Number of units [1]		16,209	15,513	14,685
Maintenance capex per unit		$817	$951	$932
Maintenance capex - three-year average			**$900**	

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

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

Maintenance capex includes all building improvements and suite renovation investment required to maintain current revenues. For the year ended December 31, 2020, Killam updated its maintenance capex reserve to reflect the actual capital investment for the most recent three years (2018–2020), which is equivalent to $900 per unit. Based on this calculation, Management has selected $900 per unit for its maintenance capex reserve for 2020, which is consistent with the 2019 reserve of $900 per unit. Management will maintain this reserve in its calculation of AFFO throughout 2021 until the three-year average is updated at year-end with actual results.

The allocations above were the result of a detailed review of Killam's historical capital investment. Significant judgment was required to allocate capital between value-enhancing and maintenance activities. Management believes these allocations are reflective of Killam's capital program. The maintenance capex as a percentage of total capital investment decreased in 2020, and this reflects Killam's increased investment in its suite repositioning program as well as its energy efficiency program, both of which are value enhancing. In 2020, approximately 23% of annual capital investment was attributable to maintaining and sustaining properties.

Maintenance Capex Reserve - MHCs and Commercial

The capital investment specific to the MHC portfolio was also reviewed for the three years ended December 31, 2020, and categorized into value-enhancing and maintenance capex. Value-enhancing capital investment includes site expansions, land improvements and NOI-enhancing water and sewer upgrades. Maintenance capex includes capital investment related to roads and paving, as well as the majority of water and sewer capital invested to maintain the infrastructure in each community. On a per site basis, maintenance capex has ranged from $295 to $345 over the past three years. Management selected $300 per MHC site for its maintenance capex reserve for 2020, consistent with its 2019 reserve of $300 per site.

Killam began taking a maintenance capex allowance for its commercial properties in 2018. Based on the expected average annual maintenance capital investment in these assets, Killam has taken an annual capex reserve of $0.70 per square foot in 2018 and 2019. Killam updated its maintenance capex reserve to reflect the actual capital investment for the most recent three years (2018–2020), which is equivalent to approximately $0.79 per square foot. Based on this calculation, Management has selected $0.80 per square foot for its commercial maintenance capex reserve for 2020.

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

For the years ended December 31,

	2020	2019	% Change
FFO	**$104,678**	$93,884	11.5%
Maintenance capital expenditures	**(16,860)**	(16,237)	3.8%
Commercial straight-line rent adjustment	**(555)**	(423)	31.2%
Internal and external commercial leasing costs	**(447)**	(456)	(2.0)%
AFFO	**$86,816**	$76,768	13.1%
AFFO per unit – basic	**$0.83**	$0.80	3.7%
AFFO per unit – diluted	**$0.83**	$0.80	3.7%
AFFO payout ratio – diluted (1)	**82%**	82%	— bps
Weighted average number of units – basic (000s)	**104,340**	95,719	9.0%
Weighted average number of units – diluted (000s)	**104,503**	95,914	9.0%

(1) Based on Killam's annual distribution of $0.6767 for the year ended December 31, 2020, and $0.65666 for the year ended December 31, 2019.

The payout ratio of 82% for the year ended December 31, 2020, is consistent with the payout ratio for the year ended December 31, 2019. The stability is attributable to a 13.1% increase in AFFO, driven by contributions from acquisitions and developments and same property NOI growth, offset by the impact of the increase in the weighted average number of units outstanding.

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

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

Adjusted Cash Flow from Operations

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

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

A reconciliation from cash provided by operating activities (refer to the consolidated statements of cash flows for the year ended December 31, 2020 and 2019) to ACFO is as follows:

For the years ended December 31,	**2020**	2019	% Change
Cash provided by operating activities	**$123,514**	$95,208	29.7%
Adjustments:			
Changes in non-cash working capital not indicative of sustainable cash flows	**(15,892)**	2,049	(875.6)%
Maintenance capital expenditures	**(16,860)**	(16,237)	3.8%
External commercial leasing costs	**(212)**	(264)	(19.7)%
Amortization of deferred financing costs	**(3,126)**	(3,093)	1.1%
Interest expense related to lease liability	**(31)**	(133)	(76.7)%
Non-controlling interest	**(16)**	(11)	45.5%
ACFO	**$87,377**	$77,519	12.7%
Distributions declared [1]	**71,731**	63,805	12.4%
Excess of ACFO over cash distributions	**$15,646**	$13,714	14.1%
ACFO payout ratio – diluted [2]	**82%**	82%	— bps

[1] Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 46.
[2] Based on Killam's annual distribution of $0.6767 for the year ended December 31, 2020, and $0.65666 for the year ended December 31, 2019

Killam's ACFO payout ratio is 82% for the year ended December 31, 2020. Similarly to the AFFO payout ratio, Killam's first quarter typically has the highest ACFO payout ratio due to the lower operating margin in the period attributable to higher heating costs in the winter months and the fact the MHC portfolio typically generates its highest revenues and NOI during the second and third quarters of the year.

Cash Provided by Operating Activities and Distributions Declared

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

For the years ended December 31,	**2020**	2019
Net income	**$146,040**	$283,525
Cash provided by operating activities	**$123,514**	$95,208
Total distributions declared	**$71,731**	$63,805
Excess of net income over total distributions declared	**$74,309**	$219,720
Excess of net income over net distributions paid [1]	**$95,834**	$238,253
Excess of cash provided by operating activities over total distributions declared	**$51,783**	$31,403

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

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

PART VII
Investment Properties

As at December 31,

	2020	2019	% Change
Investment properties	**$3,570,198**	$3,234,410	10.4%
Investment properties under construction ("IPUC")	**128,100**	46,867	173.3%
Land for development	**43,620**	39,327	10.9%
	$3,741,918	$3,320,604	12.7%

Continuity of Investment Properties

As at December 31,

	2020	2019	% Change
Balance, beginning of year	**$3,234,410**	$2,708,617	19.4%
Acquisition of properties	**206,616**	185,763	11.2%
Transfer to assets held for sale	**—**	(15,099)	(100.0)%
Transfer from IPUC	**22,117**	36,215	(38.9)%
Capital expenditures and development costs [1]	**65,693**	71,495	(8.1)%
Fair value adjustment - Apartments	**53,765**	208,624	(74.2)%
Fair value adjustment - MHCs	**1,820**	38,540	(95.3)%
Fair value adjustment - Commercial	**(14,862)**	(1,549)	859.5%
Impact of change in right-of-use asset	**639**	1,804	(64.6)%
Balance, end of year	**$3,570,198**	$3,234,410	10.4%

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

The key valuation assumption in the determination of fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at December 31, 2020 and December 31, 2019, is as follows:

For the years ended December 31,

		2020			2019	
Capitalization Rates	**Low**	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**3.25%**	**7.00%**	**4.67%**	3.50%	8.00%	4.76%
MHCs	**5.00%**	**6.50%**	**5.64%**	5.00%	6.50%	5.65%

Killam's effective weighted average cap-rate for its apartment and MHC portfolios at December 31, 2020 was 4.67% and 5.64%, relatively consistent with the cap-rates as at December 31, 2019. The cap-rate change primarily relates to small cap-rate compression the New Brunswick and Prince Edward Island markets. The COVID-19 pandemic has resulted in a higher degree of uncertainty surrounding market values, and management estimated cap-rates at year-end based on the current information available.

Killam reviewed its valuation of investment properties in light of COVID-19 as at December 31, 2020. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes on Killam's business and operations, both in the short-term and in the long-term. In the long-term scenario the aspects which could be impacted include rental rates, occupancy and cap-rates, which would impact the underlying valuation of investment properties. Killam has applied judgement in estimating the valuation given the uncertainties surrounding the economic impact of COVID-19. Key assumptions for the apartment portfolio include reflecting lower rental rate increases and increased vacancy in regions seeing more significant economic downturn, including Alberta and Newfoundland. For commercial assets, adjustments were made to lease up assumptions, increased credit allowances and adjustments to the discount and terminal rates.

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

The quantitative sensitivity analysis shown below illustrates the value increase or decrease in Killam's portfolio of apartment properties given the change in the noted input:

Cap-rate Sensitivity Increase (Decrease)	Fair Value of Investment Properties (1)	Effective Weighted Average	Fair Value Variance	% Change
(0.50)%	$3,832,018	4.23%	$400,950	12%
(0.25)%	3,617,459	4.48%	186,391	5%
—%	3,431,068	4.73%	—	—%
0.25%	3,253,259	4.98%	(177,809)	(5)%
0.50%	3,097,378	5.23%	(333,690)	(10)%

(1) Includes Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method.

2020 Acquisitions - Investment Properties

						Purchase Price (1)	
Property	**Location**	**Acquisition Date**	**Ownership Interest**	**Property Type**	**Units/SF**	**Income-producing Properties**	**Land for Development**
Christie Point	Victoria, BC	15-Jan-20	100%	Apartment	161	**$54,000**	**$—**
9 Carrington	Halifax, NS	31-Jan-20	100%	Apartment	54	**8,800**	**—**
Domaine Parlee	Shediac, NB	23-Mar-20	100%	MHC	89	**3,950**	**—**
1325 Hollis	Halifax, NS	31-Mar-20	100%	Apartment	7	**3,700**	**—**
Crossing at Belmont	Langford, BC	30-Apr-20	100%	Apartment	156	**60,000**	**—**
3644 & 3670 Kempt Rd	Halifax, NS	15-Jul-20	100%	Commercial	12,700	**2,500**	**—**
Luma	Ottawa, ON	30-Jul-20	50%	Development Land	—	**—**	**4,300**
171 & 181 Leopold	Moncton, NB	26-Oct-20	100%	Apartment	107	**17,600**	**—**
1538 Carlton Street	Halifax, NS	30-Oct-20	100%	Development Land	—	**—**	**1,200**
88 Sunset	Moncton, NB	13-Nov-20	100%	Apartment	162	**55,000**	**—**
Total Acquisitions						**$205,550**	**$5,500**

(1) Purchase price does not include transaction costs.

Christie Point
On January 15, 2020, Killam completed the acquisition of a 161-unit apartment building in Greater Victoria, BC, for $54.0 million. The property features five two-storey buildings and four two-storey townhouse buildings.

9 Carrington
On January 31, 2020, Killam completed the acquisition of a 54-unit apartment building in Halifax, NS, for $8.8 million.

Domaine Parlee
On March 23, 2020, Killam completed the acquisition of an 89-site MHC park in Shediac, NB, for $3.9 million.

1323-1325 Hollis
On March 31, 2020, Killam completed the acquisition of a 7-unit apartment building in Halifax, NS, for $3.7 million that also includes land for future development.

Crossing at Belmont
On April 30, 2020, Killam completed the acquisition of a 156-unit apartment complex in Langford, BC, for $60.0 million.

3644 & 3670 Kempt Road
On July 15, 2020, Killam acquired a commercial property located next to its head office for $2.5 million.

Luma
On July 30, 2020, Killam acquired a 50% interest in a parcel of land for development in Ottawa, ON, to jointly develop a 168-unit apartment building, for $4.3 million.

171 & 181 Leopold
On October 26, 2020, Killam completed the acquisition of a 107-unit apartment building in Moncton, NB, for $17.6 million.

1538 Carleton Street
On October 30, 2020, Killam acquired a parcel of land for development in Halifax, NS, for $1.2 million.

88 Sunset
On November 13, 2020, Killam completed the acquisition of a 162-unit apartment building in Moncton, NB, for $55.0 million.

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

Investment Properties Under Construction

As at December 31,

	2020	2019	% Change
Balance, beginning of year	**$46,867**	$37,163	26.1%
Fair value adjustment	**10,184**	774	1,215.8%
Capital expenditures	**76,050**	29,341	159.2%
Interest capitalized	**1,686**	754	123.6%
Acquisitions	**3,968**	—	N/A
Transfer to investment properties	**(22,117)**	(36,215)	(38.9)%
Transfer from land for development	**11,462**	15,050	(23.8)%
Balance, end of year	**$128,100**	$46,867	173.3%

Land for Development

As at December 31,

	2020	2019	% Change
Balance, beginning of year	**$39,327**	$61,028	(35.6)%
Fair value adjustment (1)	**(4,022)**	(1,663)	141.9%
Capital expenditures	**3,339**	5,700	(41.4%)
Interest capitalized	**987**	1,513	(34.8)%
Acquisitions	**1,237**	6,200	(80.0)%
Transfer to IPUC	**(11,462)**	(15,050)	(23.8)%
Transfer from (to) held for sale (1)	**14,214**	(18,401)	(177.2)%
Balance, end of year	**$43,620**	$39,327	10.9%

(1) During the year, Killam recorded a fair value loss of $6.3 million on development land in downtown Calgary, AB. Killam determined that this parcel of land for development, previously classified as held for sale, no longer met the criteria for this classification. As at March 31, 2020, Killam reclassified the land from held for sale to land for development. As at December 31, 2020, the property has a carrying value of $8.1 million (Killam's 40% interest).

Killam's development projects currently underway as at December 31, 2020, include the following five projects:

Property	Location	Ownership	Number of Units (1)	Project Budget (millions) (3)	Start Date	Estimated Year of Completion	Percent Complete	Anticipated All-cash Yield
10 Harley Street	Charlottetown, PE	100%	38	$10.4	2019	Q1-2021	95%	5.00% - 5.25%
Latitude	Ottawa, ON	50%	104	$42.0	2019	2022	56%	4.75% - 5.00%
The Kay	Mississauga, ON	100%	128	$57.0	2019	Q4-2021	55%	4.75% - 5.00%
Luma	Ottawa, ON	50%	84	$44.3	2019	2022	43%	4.00% - 4.25%
Civic 66	Kitchener, ON	100%	169	$69.7	2020	2022	21%	4.75% - 5.00%
Total (2)			523	$223.4				

(1) Represents Killam's ownership interest and number of units in the development.
(2) Killam also held a 10% interest in the Nolan Hill development project in Calgary as at December 31, 2020, totalling 233 units, which is included in IPUC. Killam acquired the remaining 90% interest in January 2021.
(3) Project budget excluding land costs.

Shorefront

Killam's 78-unit, five-storey, Shorefront development in Charlottetown, PE, reached substantial completion in October 2020. Final project costs are estimated to be approximately $22.0 million ($282,000/suite), resulting in an all-cash yield of approximately 5.25%, a 50–75 bps premium over the market cap-rate for a similar quality asset. The property is currently 55% leased.

10 Harley Street

Killam's 38-unit 10 Harley project is expected to cost approximately $10.4 million ($274,000/suite). Construction is 95% complete and the building is expected to open with tenants moving in during Q1-2021.

Latitude

Latitude, the second phase of the Gloucester City Centre development, containing 209 units, broke ground during Q2-2019 and is expected to be completed in early 2022. The total cost is budgeted at $84.0 million ($42.0 million for Killam's 50% interest). Construction financing was placed on this project during Q3-2020 and all remaining development costs will be funded through this financing.

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

The Kay

The budget for this 128-unit development located in Mississauga, ON, is $57.0 million, or $445,500 per suite, with an anticipated all-cash yield in the range of 4.75% - 5.00%, approximately a 125–175 bps premium over the market cap-rate for a similar quality asset. The development broke ground during the third quarter of 2019 and is expected to be completed in late 2021. Construction financing was put in place during Q2-2020 and all remaining development costs will be funded through this financing.

Luma

On July 30, 2020, Killam acquired a 50% interest in a parcel of land for development from RioCan REIT to jointly develop a 169-unit apartment building adjacent to the grocery-anchored Elmvale Acres Shopping Centre in Ottawa. Subsequent to this purchase, Killam invested $9.8 million to reflect Killam's portion of construction costs completed to date. This development broke ground in Q3-2019 and is expected to be completed in early 2022. Killam's 50% cost is approximately $44.3 million with a 4.00% - 4.25% yield. Construction financing was put in place during Q4-2020 and all remaining development costs will be funded through this financing.

Civic 66

In 2018, Killam acquired land in Kitchener, ON, with plans to develop a 169-unit, eleven-storey, apartment building. The budget for the development is $69.7 million, or $412,000 per suite, with an anticipated all-cash yield in the range of 4.75% - 5.00%, approximately a 125–175 bps premium over the market cap-rate for a similar quality asset. Killam started construction in July 2020 and it is expected to take 24 months to complete. Killam expects its equity contribution to be completed in the first half of 2021, at which time construction financing will be placed.

Nolan Hill

Phase 1 of the Nolan Hill development located in Calgary, of which Killam had a 10% interest, broke ground during Q4-2019 and construction was completed in January 2021. The cost of Killam's 10% interest was $4.8 million and on January 21, 2021, Killam acquired the remaining 90% interest in the 233-unit three building complex at a fixed price of $49.5 million. Based on the purchase price of $55.0 million for a 100% interest, Killam recorded a fair value gain of $0.7 million on its 10% interest.

Killam secured financing for the Nolan Hill property through CMHC's Rental Construction Financing initiative (RCFi), a National Housing Strategy program that supports rental housing construction projects to encourage a stable supply of rental housing for middle-class families across Canada. Seventy-eight units at this property have rents at 70% of market rate, averaging $1,014, or $1.20 per square foot. The remaining 154 units are priced at $1,403 per average unit, or $1.74 per square foot. The property opened in January 2021 and is currently 31% leased.

Future Development Pipeline

Killam has a robust development pipeline. Fifty-five percent of Killam's development pipeline is outside Atlantic Canada. Killam targets yields of 4.75% - 5.50% on developments, 50 - 150 bps higher than the expected cap-rate value on completion. Building out the approximate $1.0 billion pipeline at a 100 bps spread should create approximately $250.0 million in NAV growth for unitholders. Killam currently has the following land available for future development:

Property	Location	Killam's Interest	Development Potential (# of Units) (1)	Status	Estimated Year of Completion
Developments expected to start in 2021					
The Governor (2)	Halifax, NS	100%	12	Building permit	2022
Westmount Place (Phase 1)	Waterloo, ON	100%	140	In design and approval process	2024
Developments expected to start in 2022-2026					
Carlton East & West	Halifax, NS	100%	140	In design	2024
Stratford land	Charlottetown, PE	100%	175	In design	2024
Sherwood Crossing	Charlottetown, PE	100%	325	In design	2025
Hollis Street	Halifax, NS	100%	90	In design	2025
Gloucester City Centre (Phase 3-4)	Ottawa, ON	50%	200	In design	2025
Westmount Place (Phase 2-5)	Waterloo, ON	100%	908	In design	2028
Additional future development projects					
Gloucester City Centre (Phase 5)	Ottawa, ON	50%	100	Future development	TBD
Kanata Lakes	Ottawa, ON	50%	40	Future development	TBD
St. George Street	Moncton, NB	100%	60	Future development	TBD
15 Haviland	Charlottetown, PE	100%	60-90	Future development	TBD
Christie Point	Victoria, BC	100%	312	Future development	TBD
Medical Arts	Halifax, NS	100%	200	Future development	TBD
Topsail Road	St. John's, NL	100%	225	Future development	TBD
Block 4	St. John's, NL	100%	80	Future development	TBD
Total Development Opportunities (3)			**3,067**		

(1) Represents Killam's ownership in the potential development units.
(2) This development is adjacent The Alexander, Killam's recently completed development, and will include 12 large-scale luxury suites.
(3) In addition, Killam has a 10% interest in the remaining three phases of Nolan Hill, totalling another 596 units.

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

Capital Improvements

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

During the year ended December 31, 2020, Killam invested $65.7 million of capital in its existing portfolio, compared to $62.0 million for the year ended December 31, 2019. This increase reflects the timing of the completion of larger capital projects year-over-year as well as increased investment in Killam's repositioning program, partially offset by delays in the start of capital projects as a result of COVID-19. Capital investment associated with Killam's repositioning program increased in 2020 as demand for these repositioned units has remained strong. Killam has also increased capital investment associated with its commercial portfolio, specifically with leaseholds for new tenants at the Brewery Market and curb appeal investments at Westmount Place.

For the year ended December 31,

	2020	2019	% Change
Apartments	**$57,961**	$52,861	9.6%
MHCs	**4,392**	5,016	(12.4)%
Commercial	**3,340**	4,162	(19.8)%
	$65,693	$62,039	5.9%

Apartments - Capital Investment

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

For the year ended December 31,

	2020	2019	% Change
Building improvements	**$23,290**	$25,881	(10.0)%
Suite renovations	**23,971**	18,515	29.5%
Appliances	**2,995**	2,700	10.9%
Boilers and heating equipment	**3,729**	3,496	6.7%
Other	**3,976**	2,269	75.2%
Total capital invested	**$57,961**	$52,861	9.6%
Average number of units outstanding (1)	**16,209**	15,513	4.5%
Capital invested - $ per unit	**$3,576**	$3,408	4.9%

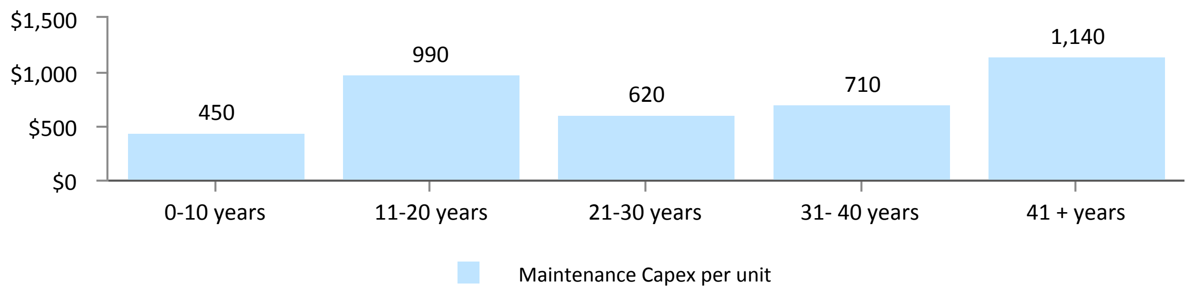
(1) Weighted average number of units, adjusted for Killam's 50% ownership in jointly held properties.

Killam invested $3,576 per unit for the year ended December 31, 2020, compared to $3,408 per unit for the same period of 2019. This increase is largely attributable to increased suite renovation investments, partially offset by certain larger projects being deferred, as a result of physical distancing restrictions and the uncertainty surrounding COVID-19.

Killam's focus on development and acquisition of newer properties translates into a lower capital maintenance per unit than many other apartment owners in Canada. Thirty-six percent of Killam's apartments, as a percentage of 2021 forecasted NOI, were built in the past 10 years, and the average age of Killam's portfolio is 28 years. This portfolio of relatively newer assets allows Killam to focus on value-enhancing opportunities as the maintenance capital requirements are lower.

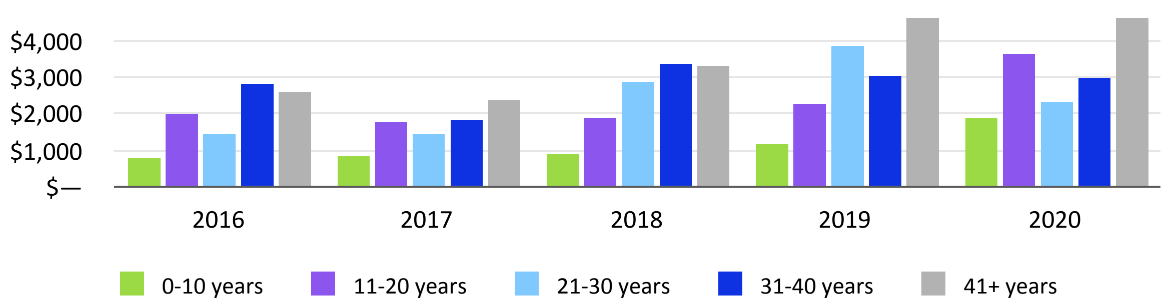
Maintenance capital requirements vary significantly by age of property. As the following chart illustrates, the approximate 2020 maintenance capex for properties built in the past 10 years was $450 per unit vs. $1,140 per unit for units that were 40+ years old.

Average Maintenance Capital Investment per Unit by Building Age (Based on 2020 Actual Investment)



As well, the chart below highlights that the total capital investment per unit is less for newer properties (built in the last 10 years), averaging $1,900 per unit, compared to $4,650 per unit for buildings over 40 years old.

Average Capital Spend per Unit by Building Age



Building Improvements

Of the $58.0 million total capital invested in the apartment segment for the year ended December 31, 2020, approximately 40% was invested in building improvements, compared to 49% of the total capital investment for the year ended December 31, 2019. These investments include exterior cladding and brick work, balcony refurbishments, roof upgrades, sidewalk replacements, common area upgrades and energy and water efficiency investments, such as air sealing and low-flow toilet upgrades, to increase the quality and efficiency of Killam's portfolio. The year-over-year variances relate primarily to the timing and deferral of certain larger projects due to COVID-19 and a slowdown in the completion of common area upgrades as a result of physical distancing requirements.

Suite Renovations and Repositionings

For the year ended December 31, 2020, Killam invested $24.0 million in suite renovations, a 29.5% increase over the total investment of $18.5 million for the same period of 2019. This increase is due to the acceleration of Killam's repositioning program. Killam continues to focus on unit renovations to maximize occupancy and rental growth. Killam targets a minimum return on investment of 10% for its suite repositions, earning rental growth of 10%–30%. The timing of suite reposition investment is influenced by natural tenant turnover, market conditions and individual property requirements. The length of time that Killam has owned a property and the age of the property also impact capital requirements. During the year, Killam completed 495 unit repositions, with an average investment of approximately $25,000 per suite, generating an average ROI of 13.0%.

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

A summary of the repositioning activities for the year ended December 31, 2020 is set out below:

	2020 Repositioning Program				
Region	Units Repositioned	Average Investment per Unit	Rental Increase Achieved/ Proposed % [1]	Avg Return on Investment	Total Remaining Units Eligible to Reposition
Nova Scotia	342	$24,300	22%	12%	3,000
Ontario	43	$35,600	33%	15%	500
New Brunswick	96	$19,750	29%	16%	1,300
Newfoundland	5	$34,200	29%	9%	150
Alberta	9	$33,650	30%	13%	50
Total (weighted average)	**495**	**$25,000**	**24%**	**13%**	**5,000**

[1] The weighted average rental lift on the units repositioned during the year is based on the proposed rental rate prior to the unit being leased. Killam's weighted average rental increase on repositioned units leased during the year ended December 31, 2020 was 27.3%.

In the long term, Killam estimates that the reposition opportunity within the current portfolio is approximately an additional 5,000 units, which should generate an estimated $17.0 million in additional annualized revenue, representing an approximate $340.0 million increase in NAV.

Expanding our Sustainability Focus

Killam continued to execute on its energy efficiency plan throughout 2020. Killam will continue to invest in additional energy efficiency initiatives, which include the installation of photovoltaic solar panels at select properties and heating efficiencies. Since 2015, Killam has installed over 11,500 low-flow toilets, saving an estimated 700 million litres of water annually across the portfolio and generating approximately $1.6 million in water consumption savings. Killam plans to complete more water conservation projects in the future, however, these projects were put on hold temporarily to reduce interactions with tenants inside their units. Killam also plans to augment its sustainability programs and improve its GRESB rating. Killam is committed to lowering and reporting on its greenhouse gas emissions and also completing benchmarking using third-party validation.

MHCs - Capital Investment

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

For the year ended December 31,

	2020	2019	% Change
Water and sewer upgrades	**$2,164**	$1,946	11.2%
Site expansion and land improvements	**571**	465	22.8%
Other	**1,177**	1,507	(21.9)%
Roads and paving	**351**	748	(53.1)%
Equipment	**129**	350	(63.1)%
Total capital invested - MHCs	**$4,392**	$5,016	(12.4)%
Average number of sites	**5,855**	5,486	6.7%
Capital invested - $ per site	**$750**	$914	(17.9)%

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

Total capital invested during the year ended December 31, 2020 was $4.4 million, down from $5.0 million for the year ended December 31, 2019. The decrease in capital investment is due to timing of various community enhancements and water and sewer upgrades. As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community.

Commercial - Capital Investment

During the year ended December 31, 2020, Killam invested $3.3 million in its commercial portfolio, compared to $4.2 million for the year ended December 31, 2019. These investments relate primarily to upgrades and tenant improvements at the Brewery Market as Killam continues to reposition this property, as well as common area upgrades at Westmount Place.

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

Mortgages and Other Loans

The table below outlines Killam's key debt metrics:

As at December 31,	**2020**	2019	Change
Weighted average years to debt maturity	**4.6**	4.5	0.1 years
Total debt to total assets	**44.6%**	43.4%	120 bps
Interest coverage	**3.36x**	3.20x	5.0%
Debt service coverage	**1.57x**	1.57x	—%
Debt to normalized EBITDA (1)	**10.78x**	10.15x	6.2%
Weighted average mortgage interest rate	**2.69%**	2.90%	(21) bps
Weighted average interest rate of total debt	**2.69%**	2.92%	(23) bps

(1) Ratio calculated net of cash.

Killam's long-term debt consists largely of fixed-rate, long-term mortgages. Mortgages are secured by a first or second charge against individual properties. Killam's weighted average interest rate on mortgages as at December 31, 2020, was 2.69%, 21 bps lower compared to the rate as at December 31, 2019.

Total debt as a percentage of total assets was 44.6% at December 31, 2020, compared to 43.4% at December 31, 2019. The nominal increase in total leverage is attributable mainly to the timing of an equity raise in November 2019 and repayment of the outstanding balance on Killam's line of credit prior to year-end. Management is focused on maintaining conservative debt levels. Total debt to total assets is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes.

The quantitative sensitivity analysis shown below illustrates the value increase or decrease in Killam's debt to asset ratio given the change in the noted input:

Cap-rate Sensitivity Increase (Decrease)	Fair Value of Investment Properties (1)	Total Assets	Total Debt as % of Total Assets	Change (bps)
(0.50)%	$3,832,018	$4,028,807	41.7%	(460)
(0.25)%	$3,617,459	$3,814,248	44.0%	(230)
—%	$3,431,068	$3,627,857	46.3%	—
0.25%	$3,253,259	$3,450,048	48.7%	240
0.50%	$3,097,378	$3,294,167	51.0%	470

(1) Includes Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method.

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

Refinancings

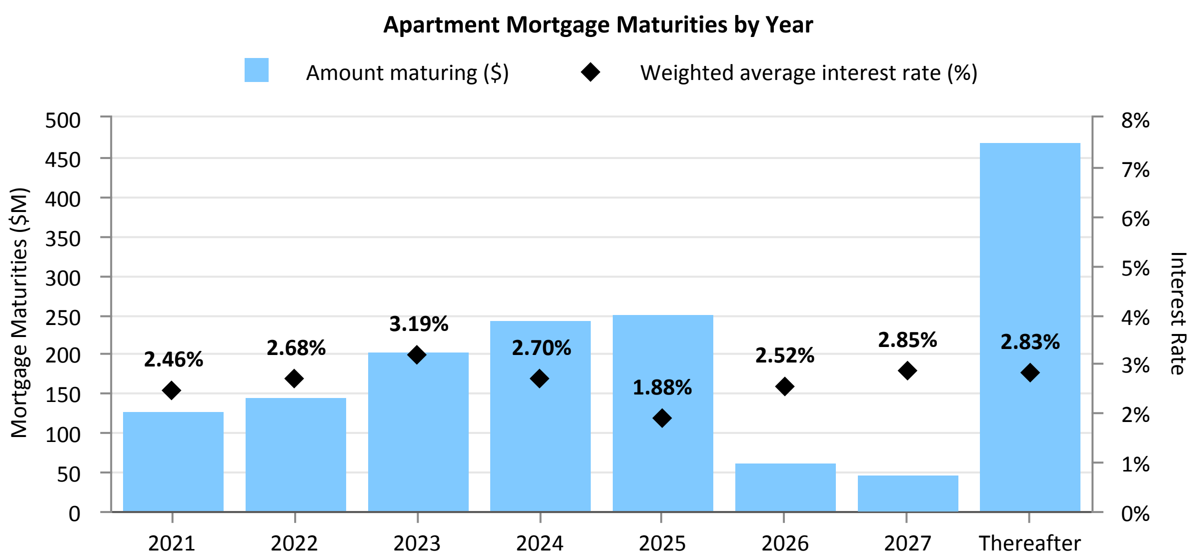
For the year ended December 31, 2020, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$205,650	2.63%	$274,736	1.76%	6.7 years	$69,086
MHCs	13,432	3.45%	22,398	2.66%	5.0 years	8,966
	$219,082	2.68%	$297,134	1.83%	6.6 years	$78,052

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

	Apartments			MHCs and Commercial		Total	
Year of Maturity	Balance December 31	Weighted Avg Int. Rate %	% CMHC Insured	Balance December 31	Weighted Avg Int. Rate %	Balance December 31 (1)	Weighted Avg Int. Rate %
2021	129,089	2.46%	86.4%	12,089	3.55%	141,178	2.56%
2022	146,638	2.68%	47.9%	24,106	3.58%	170,744	2.81%
2023	203,275	3.19%	67.4%	31,343	3.78%	234,618	3.27%
2024	244,726	2.70%	92.6%	13,169	3.49%	257,895	2.74%
2025	251,354	1.88%	79.0%	22,381	2.61%	273,735	1.94%
Thereafter	582,334	2.79%	100.0%	—	—%	582,334	2.79%
	$1,557,416	2.65%	85.2%	$103,088	3.41%	$1,660,504	2.69%

(1) Excludes $7.8 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at December 31, 2020.



Access to mortgage debt is essential in refinancing maturing debt and financing acquisitions. Management has diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered maturity dates to manage interest rate risk. Management anticipates continued access to mortgage debt for both acquisitions and refinancings. Killam has experienced continued access to mortgage debt throughout the current COVID-19 pandemic. Access to CMHC-insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee and therefore are able to lend at more favourable rates. As at December 31, 2020, approximately 85.2% of Killam's apartment mortgages were CMHC-insured (79.9% of total mortgages, as MHC and commercial mortgages are not eligible for CMHC insurance) (December 31, 2019 - 85.2% and 79.6%). The weighted average interest rate on the CMHC-insured mortgages was 2.60% as at December 31, 2020 (December 31, 2019 - 2.77%).

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

The following tables present the NOI for properties that are available to Killam to refinance at debt maturity in 2021 and 2022:

2021 Debt Maturities	**Number of Properties**	**Estimated NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	39	$15,820	$126,713
MHCs with debt maturing	4	1,061	5,987
	43	$16,881	$132,700

2022 Debt Maturities	**Number of Properties**	**Estimated NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	22	$14,655	$139,744
MHCs with debt maturing	9	3,153	22,316
	31	$17,808	$162,060

Future Contractual Debt Obligations

As at December 31, 2020, the timing of Killam's future contractual debt obligations is as follows:

Twelve months ending December 31,	**Mortgage and Loans Payable**	**Construction Loans (1)**	**Credit Facilities (2)**	**Total**
2021	$201,345	$41,345	$7,029	$249,719
2022	211,947	—	—	211,947
2023	257,276	—	—	257,276
2024	256,140	—	—	256,140
2025	245,761	—	—	245,761
Thereafter	495,835	—	—	495,835
	$1,668,304	**$41,345**	**$7,029**	**$1,716,678**

(1) Construction loans are demand loans that are expected to be replaced with permanent mortgage financing on development completion lease-up.
(2) Killam's $70 million credit facility was amended and extended in December 2020.

Construction Loans

As at December 31, 2020, Killam had access to five variable rate non-revolving demand construction loans, for the purpose of financing development projects, totaling $134.7 million. As at December 31, 2020, $41.3 million was drawn on the construction loans (December 31, 2019 - $24.9 million). Payments are made monthly on an interest-only basis. The weighted-average contractual interest rate on amounts outstanding at December 31, 2020, was 2.37% (December 31, 2019 - 3.32%). Once construction is complete and rental targets achieved, construction financing will be replaced with permanent mortgage financing.

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

Credit Facilities

Killam has access to two credit facilities with credit limits of $110.0 million ($130.0 million with the accordion feature) and $10.0 million (December 31, 2019 - $70.0 million (with $20.0 million accordion feature) and $5.0 million) that can be used for acquisition and general business purposes.

The $110.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). The facility includes a $30.0 million demand revolver and a $80.0 million committed revolver as well as an accordion option to increase the $110.0 million facility by an additional $20.0 million. The committed revolver was increased by $40.0 million on December 23, 2020. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2020.

The $10.0 million demand facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2020.

As at December 31, 2020	Maximum Loan Amount [1]	Amount Drawn	Letters of Credit	Amount Available
$110.0 million facility	$130,000	$5,000	$—	$125,000
$10.0 million facility	10,000	2,029	1,773	6,198
Total	**$140,000**	**$7,029**	**$1,773**	**$131,198**

As at December 31, 2019	Maximum Loan Amount [1]	Amount Drawn	Letters of Credit	Amount Available
$70.0 million facility	$90,000	$—	$—	$90,000
$5.0 million facility	5,000	—	1,282	3,718
Total	$95,000	$—	$1,282	$93,718

[1] Maximum loan includes a $20.0 million accordion option, for which collateral is pledged.

Unitholders' Equity

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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the trust unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the year ended December 31, 2020, no unitholders redeemed units.

During Q1-2020, Killam increased its monthly distribution by 3.0% to $0.05667, effective for the March 2020 distribution ($0.68 per unit annualized). Killam's Distribution Reinvestment Plan ("DRIP") allows unitholders to elect to have all cash distributions from the Trust reinvested in additional units. Unitholders who participate in the DRIP receive an additional distribution of units equal to 3% of each cash distribution reinvested. The price per unit is calculated by reference to the 10-day volume weighted average price of Killam's units on the Toronto Stock Exchange preceding the relevant distribution date, which typically is on or about the 15th day of the month following the distribution declaration.

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

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

Distribution Reinvestment Plan and Net Distributions Paid

For the years ended December 31,			
	2020	2019	% Change
Distributions declared on trust units	**$68,696**	$60,795	13.0%
Distributions declared on exchangeable units	**2,784**	2,727	2.1%
Distributions declared on awards outstanding under RTU plan	**251**	283	(11.3)%
Total distributions declared	**$71,731**	$63,805	12.4%
Less:			
Distributions on trust units reinvested	**(21,274)**	(18,250)	16.6%
Distributions on RTUs reinvested	**(251)**	(283)	(11.3)%
Net distributions paid	**$50,206**	$45,272	10.9%
Percentage of distributions reinvested	**30.0%**	29.0%	

Liquidity and Capital Resources

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

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

(i) Cash flows from operating activities are expected to be sufficient to fund the current level of distributions and maintenance capex.

(ii) Killam currently has access to approximately $120 million of capital under its credit facilities. Killam's acquisition capacity on its credit facility is over $250 million.

(iii) Mortgage refinancings and construction loans are expected to be sufficient to fund value-enhancing capex, principal repayments and developments. Killam has $141.2 million of mortgage debt scheduled for refinancing through to the end of 2021, expected to lead to upfinancing opportunities of approximately $50 million.

(iv) Upcoming mortgage maturities are expected to be renewed through Killam's mortgage program. Killam's mortgage program has remained stable since COVID-19 with renewals proceeding as scheduled.

(v) Unencumbered assets of approximately $75.0 million, for which debt could be placed.

Killam is in compliance with all financial covenants contained in the DOT and through its credit facilities. Under the DOT, total indebtedness of Killam is limited to 70% of gross book value determined as the greater of (i) the value of Killam's assets as shown on the most recent consolidated statement of financial position and (ii) the historical cost of Killam's assets. Total debt as a percentage of assets as at December 31, 2020 was 44.6%.

Killam has financial covenants on its $110.0 million credit facilities. The covenants require Killam to maintain a leverage limit of not more than 70% of debt to total assets, debt to service coverage of not less than 1.3 times and unitholders' equity of not less than $900.0 million. As at February 10, 2021, Killam was in compliance with said covenants.

PART VIII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

	2020				2019			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Property revenue	$66,845	$66,653	$64,899	$63,293	$62,795	$63,020	$59,198	$57,186
NOI	$41,702	$43,397	$41,516	$38,047	$39,932	$41,349	$37,510	$33,545
Net income	$48,563	$37,465	$21,509	$38,503	$126,805	$46,839	$82,789	$27,092
FFO	$26,537	$28,512	$26,617	$23,012	$24,997	$26,247	$23,752	$18,887
FFO per unit - diluted	$0.25	$0.27	$0.26	$0.22	$0.25	$0.27	$0.25	$0.21
AFFO per unit - diluted	$0.21	$0.23	$0.22	$0.18	$0.21	$0.23	$0.20	$0.16
Weighted average units - diluted (000s)	107,300	105,691	102,620	102,358	99,781	96,044	95,807	91,938

Killam's total property revenue for the three months ended December 31, 2020 was $66.8 million, a 6.4% increase over the same period in 2019, due to the contributions from recent acquisitions, as well as increased same property revenue. Net income decreased by $78.2 million in the quarter due to a net $29.5 million of fair value gains in Q4-2020, compared to net fair value gains of $115.2 million in Q4-2019.

Q4 Consolidated Results

For the three months ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$66,845**	$62,795	6.4%	**$58,468**	$57,219	2.2%	**$8,377**	$5,576	50.2%
Property operating expenses									
General operating expenses	**12,461**	10,056	23.9%	**9,842**	9,033	9.0%	**2,619**	1,023	156.0%
Utility and fuel expenses	**4,602**	5,361	(14.2)%	**4,760**	4,943	(3.7)%	**(158)**	418	(137.8)%
Property taxes	**8,080**	7,446	8.5%	**7,002**	6,709	4.4%	**1,078**	737	46.3%
Total operating expenses	**$25,143**	$22,863	10.0%	**$21,604**	$20,685	4.4%	**$3,539**	$2,178	62.5%
NOI	**$41,702**	$39,932	4.4%	**$36,864**	$36,534	0.9%	**$4,838**	$3,398	42.4%
Operating margin %	**62.4%**	63.6%	(120) bps	**63.0%**	63.8%	(80) bps	**57.8%**	60.9%	(310) bps

For the three months ended December 31, 2020, Killam recognized 4.4% NOI growth. Revenue grew 6.4%, offset by total operating expense increases of 10.0% due to inflationary pressures and the increased size of Killam's portfolio. Consolidated same property revenue grew 2.2% for the three months ended December 31, 2020, compared to the same period of 2019. Total same property operating expenses increased by 4.4%, resulting in consolidated same property NOI 0.9% higher in Q4-2020, compared to Q4-2019.

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

Q4 Same Property NOI

For the three months ended December 31,

	Apartments			MHCs			Commercial		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$52,524**	$51,480	2.0%	**$3,881**	$3,634	6.8%	**$2,063**	$2,105	(2.0)%
Property operating expenses									
General operating expenses	**8,504**	7,746	9.8%	**1,108**	988	12.1%	**230**	299	(23.1)%
Utility and fuel expenses	**4,225**	4,426	(4.5)%	**490**	437	12.1%	**45**	80	(43.8)%
Property taxes	**6,364**	6,107	4.2%	**180**	171	5.3%	**458**	431	6.3%
Total property expenses	**$19,093**	$18,279	4.5%	**$1,778**	$1,596	11.4%	**$733**	$810	(9.5)%
NOI	**$33,431**	$33,201	0.7%	**$2,103**	$2,038	3.2%	**$1,330**	$1,295	2.7%
Operating margin	**63.6%**	64.5%	(90) bps	**54.2%**	56.1%	(190) bps	**64.5%**	61.5%	300 bps

Apartment Same Property

Killam's same property apartment portfolio realized NOI growth of 0.7% for the three months ended December 31, 2020, as compared to the three months ended December 31, 2019, due to a 2.0% increase in revenues and a 4.5% increase in total property operating expenses. The revenue growth was generated from a 3.3% increase in the average rental rate, partially offset by a 100 bps decrease in occupancy for the quarter. Occupancy for the three months ended December 31, 2020, was 96.6%.

General operating expenses increased 9.8% in the fourth quarter of 2020, compared to the same period in 2019, due to higher staffing costs as a result of front-line bonuses, contract services costs and insurance premiums. General operating expense increases were partially offset by decreased advertising costs due to strong occupancy in the majority of Killam's core markets.

Utility and fuel expenses were 4.5% lower for the quarter ended December 31, 2020, as compared to the quarter ended December 31, 2019. Electricity expenses were 2.3% lower due to the installation of LED lighting over the past 12 months, in addition to a reduction of inclusion of unit electricity as a rental incentive. Oil costs were down 40.6%, compared to Q4-2019, as a result of lower commodity pricing in Killam's major regions and switching select properties to more efficient heating sources. Natural gas expenses were down 8.5% quarter-over-quarter due to a 16.7% weighted average reduction in natural gas pricing in Killam's Nova Scotia, New Brunswick and Ontario markets. Property taxes increased 4.2% quarter-over-quarter due to higher property tax assessments and rate increases.

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

Q4-2020 Occupancy

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

		Total Occupancy			Same Property Occupancy		
For the three months ended December 31,	# of Units	**2020**	2019	Change (bps)	**2020**	2019	Change (bps)
Halifax	5,814	**97.3%**	98.9%	(160)	**97.3%**	98.9%	(160)
Ottawa	1,216	**95.0%**	92.5%	250	**94.4%**	94.4%	—
London	523	**97.1%**	98.6%	(150)	**97.1%**	98.6%	(150)
Cambridge-GTA	818	**97.7%**	98.5%	(80)	**97.8%**	98.5%	(70)
Moncton	2,073	**97.0%**	98.8%	(180)	**98.3%**	98.8%	(50)
Fredericton	1,529	**98.1%**	98.4%	(30)	**98.2%**	98.4%	(20)
Saint John	1,202	**96.7%**	96.5%	20	**96.7%**	96.5%	20
St. John's	915	**86.7%**	91.4%	(470)	**86.7%**	91.4%	(470)
Charlottetown (2)	1,064	**90.9%**	99.5%	(860)	**99.4%**	99.4%	—
Calgary	531	**92.7%**	95.9%	(320)	**94.0%**	95.8%	(180)
Edmonton	579	**94.5%**	92.2%	230	**95.4%**	92.5%	290
Victoria	315	**98.6%**	N/A	N/A	**N/A**	N/A	N/A
Other Atlantic	469	**94.0%**	96.0%	(200)	**94.0%**	96.0%	(200)
Total Apartments (weighted average)	17,048	**96.0%**	97.4%	(140)	**96.6%**	97.6%	(100)

(1) Occupancy as a percentage of residential rent is calculated as vacancy (in dollars) divided by gross potential residential rent (in dollars) for the period.
(2) Total occupancy is impacted by Shorefront, which is undergoing initial lease-up.

Overall apartment occupancy decreased 140 bps to 96.0% in the fourth quarter of 2020, compared to 97.4% for the fourth quarter of 2019. This includes new properties in their initial lease-up. Same property occupancy was 96.6%, a 100 bps decline versus Q4-2019. St. John's same property occupancy is down 470 bps in Q4-2020, compared to Q4-2019. Lower occupancy in the region is due to economic pressure that has been further impacted by COVID-19. The region has seen reduced activity in the offshore oil sector as well as declines in other natural resource sectors, on which the Newfoundland economy is heavily reliant.

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

Apartment Same Property NOI by Region

Three months ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Nova Scotia									
Halifax	$20,791	$20,312	2.4%	($7,081)	($6,799)	4.1%	$13,710	$13,513	1.5%
	20,791	20,312	2.4%	(7,081)	(6,799)	4.1%	13,710	13,513	1.5%
Ontario									
Ottawa	3,266	3,185	2.5%	(1,102)	(1,055)	4.5%	2,164	2,130	1.6%
London	2,118	2,055	3.1%	(761)	(699)	8.9%	1,357	1,356	0.1%
Cambridge-GTA	3,708	3,618	2.5%	(1,270)	(1,169)	8.6%	2,438	2,449	(0.4)%
	9,092	8,858	2.6%	(3,133)	(2,923)	7.2%	5,959	5,935	0.4%
New Brunswick									
Moncton	4,747	4,618	2.8%	(1,988)	(1,951)	1.9%	2,759	2,667	3.4%
Fredericton	4,562	4,386	4.0%	(1,733)	(1,675)	3.5%	2,829	2,711	4.4%
Saint John	3,173	3,040	4.4%	(1,364)	(1,344)	1.5%	1,809	1,696	6.7%
	12,482	12,044	3.6%	(5,085)	(4,970)	2.3%	7,397	7,074	4.6%
Newfoundland & Labrador									
St. John's	2,429	2,516	(3.5)%	(874)	(786)	11.2%	1,555	1,730	(10.1)%
	2,429	2,516	(3.5)%	(874)	(786)	11.2%	1,555	1,730	(10.1)%
Prince Edward Island									
Charlottetown	2,992	2,952	1.4%	(1,205)	(1,196)	0.8%	1,787	1,756	1.8%
	2,992	2,952	1.4%	(1,205)	(1,196)	0.8%	1,787	1,756	1.8%
Alberta									
Calgary	1,453	1,489	(2.4)%	(515)	(462)	11.5%	938	1,027	(8.7)%
Edmonton	1,965	1,979	(0.7)%	(675)	(659)	2.4%	1,290	1,320	(2.3)%
	3,418	3,468	(1.4)%	(1,190)	(1,121)	6.2%	2,228	2,347	(5.1)%
Other Atlantic locations	1,320	1,330	(0.8)%	(525)	(484)	8.5%	795	846	(6.0)%
	$52,524	$51,480	2.0%	($19,093)	($18,279)	4.5%	$33,431	$33,201	0.7%

Halifax revenue grew by 2.4% during the fourth quarter of 2020 due to a 3.8% increase in average rental rates. Property operating expense growth was 4.1%, compared to Q4-2019, due to higher insurance premiums and increased property tax expense, which were partially offset by lower utility costs. Halifax's Q4-2020 same property NOI increased 1.5% from Q4-2019.

Ontario revenue increased by 2.6%, despite decreased occupancy, as a result of a 3.8% increase in rental rates. Total operating expenses increased 7.2%, primarily due to increased property taxes, higher insurance premiums and higher utility costs due to increased water consumption. Overall, Ontario's NOI increased by 0.4% compared to Q4-2019.

Performance in New Brunswick was strong in the fourth quarter, with Saint John, Fredericton and Moncton recording quarter-over-quarter NOI gains of 6.7%, 4.4% and 3.4%, respectively, as compared to the same period in 2019. Rental rates grew by an average of 4.0% across the province, with a slight decrease in overall occupancy. Property operating expenses increased 2.3% compared to Q4-2019 as utility expense savings from energy initiatives and lower rates, partially offset higher staffing costs and insurance premiums. In total, New Brunswick achieved a 4.6% increase in NOI, as compared to Q4-2019.

While Killam's St. John's portfolio saw a slight 1.1% increase in rental rates, occupancy was 470 bps lower over Q4-2019. There continues to be softness in the Newfoundland economy as a result of reduced offshore oil activity, further impacted by COVID-19. Same property revenue decreased 3.5% for Q4-2020. Property operating expenses grew 11.2%, primarily due to higher staffing costs related to an expansion of the property management and leasing teams and higher contract services costs. In aggregate, same property NOI decreased 10.1% compared to Q4-2019.

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

The Charlottetown market remains strong, with same property occupancy of 99.4% and rental rate increases of 1.4% in Q4-2020. Property expenses were up a modest 0.8% from the same period in 2019, primarily due to higher staffing costs and insurance premiums offset by lower utility costs. Overall, Charlottetown achieved NOI growth of 1.8% for the three months ended December 31, 2020.

Revenues in Alberta decreased 1.4%, as rental rates were flat quarter-over-quarter and increased incentives were used to combat higher vacancy in downtown properties. Operating costs increased 6.2% compared to the three months ended December 31, 2019, due to increased utility costs and higher staffing costs as the leasing team has expanded. In total, NOI was 5.1% lower in Q4-2020 compared to Q4-2019.

MHC Results

For the three months ended December 31,	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$4,058**	$3,624	12.0%	**$3,881**	$3,634	6.8%	**$177**	$(10)	N/A
Property operating expenses									
General operating expenses	**1,151**	995	15.7%	**1,108**	988	12.1%	**43**	7	N/A
Utility and fuel expenses	**491**	437	12.4%	**490**	437	12.1%	**1**	—	N/A
Property taxes	**198**	172	15.1%	**180**	171	5.3%	**18**	1	N/A
Total operating expenses	**$1,840**	$1,604	14.7%	**$1,778**	$1,596	11.4%	**$62**	$8	N/A
NOI	**$2,218**	$2,020	9.8%	**$2,103**	$2,038	3.2%	**$115**	$(18)	N/A
Operating margin %	**54.7%**	55.7%	(100) bps	**54.2%**	56.1%	(190) bps	**$—**	$—	—%

MHC Same Property

The MHC same property portfolio generated a 3.2% increase in NOI in Q4-2020, compared to Q4-2019. Revenues grew by 6.8% quarter-over-quarter due to a 2.4% rental rate increase at the permanent MHC communities and increased transient revenue from Killam's seasonal resorts. This was a result of increased traffic in October. Total same property operating expenses increased 11.4%, or $182.0 thousand, due to higher staffing costs, utilities and repairs and maintenance costs.

Commercial Results

For the three months ended December 31,	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$3,845**	$3,958	(2.9)%	**$2,063**	$2,105	(2.0)%	**$1,782**	$1,853	(3.8)%
Property operating expenses	**1,803**	1,967	(8.3)%	**733**	810	(9.5)%	**1,070**	1,157	(7.5)%
NOI	**$2,042**	$1,991	2.6%	**$1,330**	$1,295	2.7%	**$712**	$696	2.3%

Killam's overall commercial portfolio saw a 2.9% decrease in revenue and an 8.3% decrease in property operating expenses, resulting in a 2.6% increase in NOI compared to Q4-2019. The decline in same property commercial revenue during Q4-2020 was driven by participation in the CECRA program and a slight uptick in vacancy. Expenses decreased in 2020 following internalizing management of Westmount place in early 2020 in addition to reduced utility costs. The same property results in Q4-2020 include Westmount Place located in Waterloo and three commercial properties, one of which is Killam's head office, located in Halifax, NS.

Q4 FFO and AFFO

For the three months ended December 31,	**2020**	2019	% Change
Net income	**$48,563**	$126,805	(61.7)%
Fair value adjustments	**(29,514)**	(115,158)	(74.4)%
Loss on disposition	**—**	28	(100.0)%
Non-controlling interest	**(3)**	26	(111.5)%
Deferred tax expense	**6,717**	17,278	(61.1)%
Interest expense related to exchangeable units	**697**	685	1.8%
Net insurance proceeds	**—**	(4,754)	(100.0)%
Unrealized gain on derivative liability	**(6)**	(67)	(91.0)%
Internal commercial leasing costs	**51**	79	(35.4)%
Depreciation on owner-occupied building	**24**	39	(38.5)%
Change in principal related to lease liabilities	**8**	36	(77.8)%
FFO	**$26,537**	$24,997	6.2%
FFO per unit - diluted	**$0.25**	$0.25	—%
AFFO per unit - diluted	**$0.21**	$0.21	—%
AFFO payout ratio - diluted	**83%**	80%	300 bps
Weighted average number of units - basic (000s)	**107,139**	99,588	7.6%
Weighted average number of units - diluted (000s)	**107,300**	99,781	7.5%

Killam earned FFO of $26.5 million, or $0.25 per unit (diluted), for the three months ended December 31, 2020, compared to $25.0 million, or $0.25 per unit (diluted), for the three months ended December 31, 2019. FFO growth is primarily attributable to contributions from acquisitions and completed developments ($0.8 million), same property NOI growth ($0.4 million), and a reduction in interest expenses ($0.3 million). These increases were offset by a 7.5% increase in the weighted average number of units outstanding from an equity raise completed in July 2020.

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

PART IX

Selected Consolidated Financial Information

For the years ended December 31,	**2020**	2019	2018
Property revenue	**$261,690**	$242,164	$215,959
Net income	**$146,040**	$283,525	$175,171
FFO	**$104,678**	$93,884	$81,808
FFO per unit - diluted	**$1.00**	$0.98	$0.94
Investment properties	**$3,741,918**	$3,320,604	$2,799,693
Total assets	**$3,776,560**	$3,380,100	$2,824,406
Total liabilities	**$2,008,302**	$1,777,733	$1,655,456
Distribution per unit	**$0.68**	$0.66	$0.64

Risk Management

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

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

Killam is exposed to other risks, as outlined below:

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

As at December 31, 2020, $56.1 million of Killam's debt had variable interest rates, including four construction loans totaling $41.3 million, amounts drawn on credit facilities of $7.0 million and one demand loan totaling $7.8 million. These loans and facilities have interest rates of prime plus 0.5% - 1.25% (December 31, 2019 - prime plus 0.55% - 1.0%) and consequently, Killam is exposed to short-term interest rate risk on these loans.

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

Credit Risk
Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill the commitments of their lease. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted for all new leases, and Killam also obtains a security deposit to assist in potential recovery requirements. Killam's bad debt expense has historically been less than 0.3% of revenues, and none of Killam's tenants account for more than 3% of tenant receivables.

Pandemic Risk and Economic Downturn
On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The transmission of COVID-19 and efforts to contain its spread have resulted in international, national and local border closings, significant disruptions to business operations, financial markets, regional economies and the world economy and other changes to services as well as considerable general concern and uncertainty. Such disruptions could adversely affect the ability of Killam's tenants to pay rent and increase Killam's credit risk. In addition, the COVID-19 pandemic and other outbreaks could materially interrupt Killam's supply chain and service providers, which could have material adverse affects on Killam's ability to maintain and service its properties. There can be no assurance that a disruption in financial markets, regional economies and the world economy and the government measures to contain COVID-19 will not negatively affect the financial performance or fair values of Killam's investment properties in a material manner.

The Trust's response to the COVID-19 pandemic is guided by local public health authorities and governments. Killam continues to closely monitor business operations and may take further actions that respond to directives of governments and public health authorities or that are in the best interests of employees, tenants, suppliers or other stakeholders, as necessary. These changes and any additional changes in operations in response to COVID-19 could materially impact the business operations and financial results of Killam. The COVID-19 situation continues to change rapidly and uncertainties remain with respect to the severity and duration of a resurgence in COVID-19 or its variants, the availability, distribution rates and efficacy of COVID-19 vaccines, the speed and extent to which normal economic conditions are able to resume and the effectiveness of government and central bank responses. There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 may have, and, as a result, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Trust for future periods.

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

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

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

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

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

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

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

Fluctuation and Availability of Cash Distributions

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

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

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

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

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

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

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

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

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

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

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

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

Other Canadian Tax Matters
There can be no assurance that Canadian federal income tax laws, the terms of the Canada-United States Income Tax Convention, or the administrative policies and assessing practices of the Canada Revenue Agency will not be changed in a manner that adversely affects the REIT or unitholders. Any such change could increase the amount of tax payable by the REIT or its affiliates and/or unitholders or could

otherwise adversely affect unitholders by reducing the amount available to pay distributions or changing the tax treatment applicable to unitholders in respect of distributions. In structuring its affairs, the Trust consults with its tax and legal advisors and receives advice as to the optimal method in which to complete its business objectives while at the same time minimizing or deferring taxes, where possible. There is no guarantee that the relevant taxing authorities will not take a different view as to the ability of the Trust to utilize these strategies. It is possible that one or more taxing authorities may review these strategies and determine that tax should have been paid, in which case the Trust may be liable for such taxes.

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

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

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

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

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

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

Ground Leases
Four of Killam's properties, including 6101 South Street and Chapter House located in Halifax, Oceanic Camping located in Shediac, New Brunswick, and 1033 Queen Street West in Toronto, are subject to long-term ground leases in which the underlying land is owned by an arms-length third party and leased to Killam. Under the terms of the ground lease, Killam must pay rent for the use of the land and is generally responsible for all the costs and expenses associated with the building and improvements. Unless the lease term is extended, the land, together with all the improvements made, will revert to the owner of the land upon the expiration of the lease. The leases are scheduled to expire in 2040 (there is an option for a ten-year renewal), 2080, 2105 and 2059, respectively. The total ground lease payments for the year ended December 31, 2020 were $0.3 million (December 31, 2019 - $0.1 million).

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

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

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

Critical Judgments in Applying Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

Future Accounting Policy Changes

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

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

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments must be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. Killam is in the process of assessing the impact the amendments may have on future financial statements and plans to adopt the new standard retrospectively on the required effective date.

Disclosure Controls, Procedures and Internal Controls

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

Disclosure Controls and Procedures
As of December 31, 2020, Management evaluated the effectiveness of the operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer, with the assistance of Management.

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

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

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

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

As at December 31, 2020, Killam's President and Chief Executive Officer and its Chief Financial Officer, with the assistance of Management, assessed the effectiveness of the ICFR using the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 and, based on that assessment, determined that the ICFR were designed and operating effectively as at December 31, 2020. Killam did not make any changes to the design of ICFR in 2020 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Related Party Transactions

Killam has construction management agreements with companies owned by a Trustee of Killam. The agreements include a market rate construction management fee of 2.5% and 1.5% development management fee on hard construction costs for the Shorefront development and a 4.0% construction management fee for the Harley Street development, totalling $0.3 million (December 31, 2019 - $0.2 million). These fees are to be paid over the construction period. In addition, these companies supply direct construction services or contract arm's-length services. For the year ended December 31, 2020, these companies were paid $3.1 million (December 31, 2019 - $2.1 million).

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

The remuneration of directors and other key management personnel, which include the Board of Trustees, President & Chief Executive Officer, Executive Vice President, Chief Financial Officer and other Vice-Presidents of Killam. During 2020, three additional employees were promoted to Vice President and included in the disclosure below. The total remuneration is as follows:

For the years ended December 31,	**2020**	2019
Salaries, board compensation and incentives	**$5,138**	$4,674
Deferred unit-based compensation	**1,727**	1,822
Total	**$6,865**	$6,496

Subsequent Events

On January 15, 2021, Killam announced a distribution of $0.05667 per unit, payable on February 15, 2021, to unitholders of record on December 31, 2020.

On January 21, 2021, Killam acquired the remaining 90% interest in the 233-unit Nolan Hill property in Calgary, AB, for $49.5 million.

On January 29, 2021, Killam acquired development land in Charlottetown, PE, for $3.4 million.

On January 29, 2021, Killam acquired a property for future development in Halifax, NS, for $3.0 million.

On February 1, 2021, Killam acquired a 23-unit apartment building in Moncton, NB, for $5.6 million.

On February 1, 2021, Killam acquired a property for future development in Stratford, PE, for $3.8 million.

Management's Responsibility for Financial Statements

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

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

As at December 31, 2020, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

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

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

February 10, 2021

Philip Fraser
President and Chief Executive Officer

Dale Noseworthy
Chief Financial Officer

Independent auditor's report

To the Unitholders of
Killam Apartment Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of **Killam Apartment Real Estate Investment Trust** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. The matter was addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on the matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to the matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties The REIT's investment property portfolio is comprised primarily of multi-residential apartments, manufactured home communities and commercial income-producing properties and properties under construction with a fair value of $3.7B which represents 99% of total assets at December 31, 2020. The valuation methodology for these investment properties is primarily based on an income approach using the direct capitalization method and the discounted cash flow method.	With the assistance of our real estate valuation specialists, we evaluated the appropriateness of the underlying valuation methodology, and performed the following audit procedures, among others: • We assessed the competence and objectivity of management's valuation team, and any third-party appraisers engaged by the REIT, by reviewing the qualifications and expertise of the individuals involved in the preparation and review of the valuations and assessed the suitability of the valuation methodology utilized.

Note 2(H) of the consolidated financial statements describes the accounting policy for investment properties. Note 5 describes the valuation method and valuation inputs and discloses the sensitivity of the fair value of investment properties to a change in capitalization rates and stabilized net operating income.

The valuation of the REIT's investment property portfolio is a key audit matter given the inherently subjective nature of significant assumptions including capitalization rates, discount rates, terminal capitalization rates, stabilized net operating income, and anticipated cash flow assumptions relating to occupancy and rental rates. These assumptions are influenced by property-specific characteristics including location, type and quality of the properties and tenancy agreements. For properties under development, depending on the complexity and stage of completion, costs to complete as well as leasing and construction risk are additional significant assumptions that impact the final valuation.

- We selected a sample of properties, including those properties where either the fair value change or lack of change from prior year or significant assumptions fell outside our expectations, based on our understanding of the geographical real estate market for the specific asset type. For this sample of investment properties, we evaluated the significant assumptions including the capitalization rates, discount rates, terminal capitalization rates, stabilized net operating income and anticipated cash flow assumptions relating to occupancy and rental rates by comparison to relevant transactions, the expected real estate market benchmark range for similar assets and tenancies, in similar locations, and the actual and budgeted financial performance of the underlying properties.
- We also considered whether there were any additional asset-specific characteristics that may impact the significant assumptions utilized and that these were appropriately considered in the overall assessment of fair value.
- For properties under construction, in addition to the procedures performed above, for a sample of properties, we compared construction budgets to actual expenditures and evaluated estimated costs to complete by comparing to contractual arrangements or reference to third party data, as applicable. We also evaluated whether the capitalization rate used to value properties under construction considered the complexity of the development and stage of completion. We compared land held for development fair values to available comparable market transactions.
- We evaluated the REIT's critical accounting policies and related disclosures in the consolidated financial statements to assess appropriateness and conformity with IFRS.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young LLP

Chartered Professional Accountants

Halifax, Canada
February 10, 2021

A member firm of Ernst & Young Global Limited

Consolidated Statements of Financial Position

In thousands of Canadian dollars,

	Note	December 31, 2020	December 31, 2019
ASSETS			
Non-current assets			
Investment properties	[5]	**$3,741,918**	$3,320,604
Property and equipment	[8]	**8,349**	7,113
Other non-current assets		**—**	295
		$3,750,267	$3,328,012
Current assets			
Cash		**$2,556**	$12,801
Rent and other receivables	[10]	**6,561**	9,025
Other current assets	[9]	**17,176**	16,099
		26,293	37,925
Assets held for sale	[6]	**—**	14,163
TOTAL ASSETS		**$3,776,560**	$3,380,100
EQUITY AND LIABILITIES			
Unitholders' equity	[17]	**$1,768,129**	$1,602,254
Non-controlling interest		**129**	113
Total Equity		**$1,768,258**	$1,602,367
Non-current liabilities			
Mortgages and loans payable	[11]	**$1,430,344**	$1,161,702
Lease liabilities	[12]	**9,573**	8,919
Exchangeable Units	[16]	**70,177**	78,668
Deferred income tax	[23]	**184,611**	175,048
Deferred unit-based compensation	[19]	**4,784**	5,363
Other non-current liabilities		**188**	—
		$1,699,677	$1,429,700
Current liabilities			
Mortgages and loans payable	[11]	**$201,345**	$276,568
Credit facilities	[13]	**7,029**	—
Construction loans	[14]	**41,345**	24,851
Accounts payable and accrued liabilities	[15]	**58,906**	46,614
		308,625	348,033
Total Liabilities		**$2,008,302**	$1,777,733
TOTAL EQUITY AND LIABILITIES		**$3,776,560**	$3,380,100
Commitments and contingencies	[28]		
Financial guarantees	[29]		

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees

Trustee

Trustee

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars,

		Year ended December 31,	
	Note	**2020**	2019
Property revenue	[20]	**$261,690**	$242,164
Property operating expenses			
Operating expenses		**(41,610)**	(37,602)
Utility and fuel expenses		**(23,240)**	(23,515)
Property taxes		**(32,178)**	(28,711)
		(97,028)	(89,828)
Net operating income		**$164,662**	$152,336
Other income		**641**	6,059
Financing costs	[22]	**(48,919)**	(47,443)
Depreciation		**(630)**	(720)
Administration		**(14,745)**	(14,881)
Fair value adjustment on unit-based compensation		**59**	(1,590)
Fair value adjustment on Exchangeable Units	[16]	**7,676**	(12,461)
Fair value adjustment on investment properties	[5]	**46,885**	244,130
Loss on disposition		**—**	(1,269)
Income before income taxes		**155,630**	324,161
Deferred tax expense	[23]	**(9,590)**	(40,636)
Net income		**$146,040**	$283,525
Comprehensive income		**$146,040**	$283,525
Net income attributable to:			
Unitholders		**146,024**	283,536
Non-controlling interest		**16**	(11)
		$146,040	$283,525
Comprehensive income attributable to:			
Unitholders		**146,024**	283,536
Non-controlling interest		**16**	(11)
		$146,040	$283,525

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars,

Year ended December 31, 2020	**Trust Units**	**Contributed Surplus**	**Retained Earnings**	**Non-controlling Interest**	**Total Equity**
As at January 1, 2020	**$1,009,166**	**$795**	**$592,293**	**$113**	**$1,602,367**
Units issued on exchange of Exchangeable Units	**815**	—	—	—	**815**
Distribution reinvestment plan	**21,372**	—	—	—	**21,372**
Deferred Unit-based compensation	**578**	—	—	—	**578**
Issued for cash	**65,782**	—	—	—	**65,782**
Net income	—	—	**146,024**	**16**	**146,040**
Distributions declared and paid	—	—	**(62,793)**	—	**(62,793)**
Distributions payable	—	—	**(5,903)**	—	**(5,903)**
As at December 31, 2020	**$1,097,713**	**$795**	**$669,621**	**$129**	**$1,768,258**

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars,

		Year ended December 31,	
	Note	**2020**	2019
OPERATING ACTIVITIES			
Net income		**$146,040**	$283,525
Add (deduct) items not affecting cash			
Fair value adjustments		**(54,620)**	(230,080)
Depreciation		**717**	720
Amortization of deferred financing		**3,126**	3,093
Non-cash compensation expense		**1,727**	1,918
Deferred income taxes		**9,563**	40,364
Loss on disposition		**4**	1,269
Loss on derivative liability		**483**	235
Interest expense on Exchangeable Units		**2,784**	2,727
Straight-line rent		**(657)**	(423)
Interest expense on lease liability		**385**	298
Net change in non-cash operating activities	[25]	**13,962**	(8,438)
Cash provided by operating activities		**$123,514**	$95,208
FINANCING ACTIVITIES			
Deferred financing costs paid		**(7,647)**	(5,384)
Net proceeds on issuance of Units		**65,782**	191,729
Cash paid on redemption of restricted Units		**(1,672)**	(1,424)
Cash paid on lease liabilities		**(314)**	(133)
Mortgage financing		**433,501**	332,658
Mortgages repaid		**(187,568)**	(191,892)
Mortgage principal repayments		**(51,592)**	(44,792)
Credit facility proceeds/ (repayments)		**7,029**	(53,350)
Proceeds from construction loans		**39,613**	28,726
Construction loan repayments		**(23,119)**	(64,377)
Distributions paid to non-controlling interest		**16**	(12)
Distributions to Unitholders		**(49,633)**	(45,041)
Cash provided by financing activities		**$224,396**	$146,708
INVESTING ACTIVITIES			
Decrease (increase) in restricted cash		**(255)**	811
Acquisition of investment properties, net of debt assumed		**(206,274)**	(133,426)
Disposition of investment properties		**—**	11,520
Development of investment properties		**(81,975)**	(38,390)
Capital expenditures		**(69,651)**	(73,419)
Cash used in investing activities		**($358,155)**	($232,904)
Net increase (decrease) in cash		**(10,245)**	9,012
Cash, beginning of year		**12,801**	3,789
Cash, end of year		**$2,556**	$12,801

See accompanying notes to the consolidated financial statements.

1. Organization of the Trust

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

The consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at and for the year ended December 31, 2020. Killam's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8.

2. Significant Accounting Policies

(A) Statement of Compliance

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

The consolidated financial statements of the Trust for the year ended December 31, 2020 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on February 10, 2021.

(B) Basis of Presentation

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

The consolidated financial statements have been prepared considering the impact that the spread of COVID-19 has and continues to have on local, national and worldwide economies. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Canadian and global stock markets have also experienced great volatility. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. Killam has considered the negative economic outlook and cash flow difficulties that may be experienced as a result of this virus, on its tenants, suppliers and lenders. Despite the commencement of a vaccine rollout, the ultimate duration and impacts of the COVID-19 pandemic are not currently known, Killam has used the best information available as at December 31, 2020, in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities, and earnings for the year. Actual results could differ from those estimates. Killam considers the estimates that could be most significantly impacted by COVID-19 to include those underlying the valuation of investment properties and the estimated credit losses on accounts receivable.

(C) Adoption of Accounting Standards

Amendments to IFRS 3, Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarified the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definition of a business and of outputs, and introduced an optional fair value concentration test.

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

Prior to the amendments, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business, 'if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes'. The reference to such integration is now deleted from IFRS 3 and the assessment must be based on what has been acquired in its current state and condition.

2. Significant Accounting Policies (continued)

The amendments specify that if a set of activities and assets does not have outputs at the acquisition date, an acquired process must be considered substantive only if: (a) it is critical to the ability to develop or convert acquired inputs into outputs; and (b) the inputs acquired include both an organized workforce with the necessary skills, knowledge, or experience to perform that process, and other inputs that the organized workforce could develop or convert into outputs. In contrast, if a set of activities and assets has outputs at that date, an acquired process must be considered substantive if: (a) it is critical to the ability to continue producing outputs and the acquired inputs include an organized workforce with the necessary skills, knowledge, or experience to perform that process; or (b) it significantly contributes to the ability to continue producing outputs and either is considered unique or scarce, or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities. The definition of a business in Appendix A of IFRS 3 was amended accordingly.

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3.

Killam applied these amendments prospectively beginning on January 1, 2020, to transactions or other events that occur on or after the date of application. The application of these amendments did not have a significant impact on Killam's consolidated financial statements.

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

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

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

Killam adopted this amendment on January 1, 2020. The amendment did not have a material impact on Killam’s consolidated financial statements.

(D) Basis of Consolidation

(i) Subsidiaries

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

Subsidiaries are entities controlled by Killam. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by Killam.

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

2. Significant Accounting Policies (continued)

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

Subsidiary	**% Interest**
Killam Apartment General Partner Ltd.	100%
Killam Apartment Limited Partnership	100%
Killam Properties Inc.	100%
Killam Properties SGP Ltd.	100%
Killam Apartment Subsidiary Limited Partnership	100%
Killam Investments Inc.	100%
Killam Investments (PEI) Inc.	100%
Killam Properties Apartments Trust	100%
Killam Properties MHC Trust	100%
Blackshire Court Limited	100%
Killam KamRes (Silver Spear) Inc.	100%
Killam KamRes (Grid 5) Inc.	100%
Blackshire Court Limited Partnership	97%
Killam KamRes (Kanata Lakes) I Inc.	50%
Killam KamRes (Kanata Lakes) II Inc.	50%
Killam KamRes (Kanata Lakes) III Inc.	50%
Killam KamRes (Kanata Lakes) IV Inc.	50%
Riotrin Properties (Gloucester 3) Inc.	50%
AKK 4th Avenue Inc.	40%
Christie Point Apt. Ltd.	100%
1140459 BC Ltd.	100%

(ii) Joint arrangements
Killam has interests in three properties (seven buildings), three development projects and land for future development that are subject to joint arrangements. Killam has assessed the nature of its joint arrangements as at December 31, 2020 and determined them to be joint operations. For joint operations, Killam recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions on the consolidated statements of financial position and consolidated statements of income and comprehensive income. All balances and effects of transactions between joint operations and Killam have been eliminated to the extent of its interest in the joint operations.

(E) Property Asset Acquisitions

At the time of acquisition of a property or a portfolio of investment properties, Killam evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, *Business Combinations* ("IFRS 3") is only applicable if it is considered that a business has been acquired. A business according to IFRS 3, is an integrated set of activities and assets that must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, Killam applies judgment when determining the substance of the assets and activities acquired in addition to the property or portfolio of properties.

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

2. Significant Accounting Policies (continued)

(F) Revenue Recognition

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

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

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

(iv) Manufactured home sales
Where revenue is obtained from the sale of manufactured homes, it is recognized when control has been transferred to the buyer. This will normally take place on the closing date of the home sale. Such sales are considered sales of goods.

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

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

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

(G) Tenant Inducements

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

(H) Investment Properties

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

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

2. Significant Accounting Policies (continued)

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

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

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

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

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

(I) Assets Held for Sale
Assets held for sale include assets that meet the held for sale criteria in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. These assets have carrying amounts that will be recovered principally through a sale and are available for immediate sale in their present condition. Upon designation as held for sale, the investment property continues to be measured at fair value and is presented separately in the consolidated statement of financial position.

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

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

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

2. Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

2. Significant Accounting Policies (continued)

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

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

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

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

Financing costs
Financing fees and other costs incurred in connection with debt financing are deducted from the cost of the debt and amortized using the effective interest rate method. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate calculation.

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

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

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

2. Significant Accounting Policies (continued)

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

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

(O) Hedging Relationships
Killam may use interest rate swaps to hedge its risks associated with interest rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

Cash flow hedges
For the purpose of cash flow hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity through other comprehensive income, while any ineffective portion is recognized immediately in the consolidated statements of income and comprehensive income. Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized.

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

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

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

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

2. Significant Accounting Policies (continued)

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

(S) Taxation

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

(i) Current income tax

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

(ii) Deferred income tax

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

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

(T) Earnings Per Unit

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

(U) Leases

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

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

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

3. Critical Accounting Judgments, Estimates and Assumptions

Critical Judgments in Applying Accounting Policies

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

(i) Income taxes

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

(ii) Investment property and internal capital program

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

(iii) Financial instruments

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

(iv) Basis of consolidation

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

(v) Revenue Recognition

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

Key Accounting Estimates and Assumptions

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

(i) Valuation of investment properties

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

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

(ii) Deferred unit-based compensation

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

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

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

4. Future Accounting Policy Changes

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

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

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments must be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. Killam is in the process of assessing the impact the amendments may have on future financial statements and plans to adopt the new standard retrospectively on the required effective date.

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

5. Investment Properties

As at December 31, 2020

	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
Balance, January 1, 2020	**$2,874,407**	**$202,431**	**$157,572**	**$46,867**	**$39,327**	**$3,320,604**
Fair value adjustment on investment properties	**53,765**	**1,820**	**(14,862)**	**10,184**	**(4,022)**	**46,885**
Acquisitions	**200,017**	**4,044**	**2,555**	**3,968**	**1,237**	**211,821**
Transfer from IPUC	**22,117**	**—**	**—**	**(22,117)**	**—**	**—**
Capital expenditures	**57,961**	**4,392**	**3,340**	**76,050**	**3,339**	**145,082**
Transfer between apartment and commercial segment	**9,475**	**—**	**(9,475)**	**—**	**—**	**—**
Transfer from land for development	**—**	**—**	**—**	**11,462**	**(11,462)**	**—**
Transfer from held for sale	**—**	**—**	**—**	**—**	**14,214**	**14,214**
Impact of change in right-of-use asset	**627**	**12**	**—**	**—**	**—**	**639**
Interest capitalized on IPUC and land for development	**—**	**—**	**—**	**1,686**	**987**	**2,673**
Balance, December 31, 2020	**$3,218,369**	**$212,699**	**$139,130**	**$128,100**	**$43,620**	**$3,741,918**

As at December 31, 2019

	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
Balance, January 1, 2019	$2,432,273	$153,509	$122,835	$37,163	$61,028	$2,806,808
Fair value adjustment on investment properties	208,624	38,540	(1,549)	774	(1,663)	244,726
Acquisitions	149,654	3,985	32,124	—	6,200	191,963
Transfer from IPUC	36,215	—	—	(36,215)	—	—
Capital expenditures	62,317	5,016	4,162	29,341	5,700	106,536
Transfer from land for development	—	—	—	15,050	(15,050)	—
Transfer to held for sale	(15,099)	—	—	—	(18,401)	(33,500)
Impact of change in right-of-use asset	423	1,381	—	—	—	1,804
Interest capitalized on IPUC and land for development	—	—	—	754	1,513	2,267
Balance, December 31, 2019	$2,874,407	$202,431	$157,572	$46,867	$39,327	$3,320,604

During the year ended December 31, 2020, Killam acquired the following properties:

Property	**Location**	**Acquisition Date**	**Ownership Interest**	**Property Type**	**Purchase Price** [1]
Christie Point	Victoria, BC	15-Jan-20	100%	Apartment	**$54,000**
9 Carrington	Halifax, NS	31-Jan-20	100%	Apartment	**8,800**
Domaine Parlee	Shediac, NB	23-Mar-20	100%	MHC	**3,950**
1325 Hollis	Halifax, NS	31-Mar-20	100%	Apartment	**3,700**
Crossing at Belmont	Langford, BC	30-Apr-20	100%	Apartment	**60,000**
3644 & 3670 Kempt Rd	Halifax, NS	15-Jul-20	100%	Commercial	**2,500**
Luma	Ottawa, ON	30-Jul-20	50%	Development Land	**4,300**
171 & 181 Leopold	Moncton, NB	26-Oct-20	100%	Apartment	**17,600**
1538 Carlton Street	Halifax, NS	30-Oct-20	100%	Development Land	**1,200**
88 Sunset	Moncton, NB	13-Nov-20	100%	Apartment	**55,000**
Total Acquisitions					**$211,050**

[1] Purchase price does not include transaction costs.

During the year ended December 31, 2020, Killam capitalized salaries of $3.8 million (year ended December 31, 2019 - $3.8 million), as part of its project improvement, suite renovation and development programs. For the year ended December 31, 2020, interest costs associated with the general corporate borrowings used to fund development were capitalized to the respective development projects using Killam's weighted average borrowing rate of 2.69% (December 31, 2019 - 2.94%). Interest costs associated with development specific loans were capitalized to the respective developments using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $3.5 billion as at December 31, 2020 (December 31, 2019 - $3.1 billion), have been pledged as collateral against Killam's mortgages, construction loan and credit facilities.

5. Investment Properties (continued)

Valuation methodology

Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Expectations about future improvements or modifications to be made to the investment property to reflect its highest and best use may be considered in the valuation.

Investment properties carried at fair value are categorized by level according to the significance of the inputs used in making the measurements. As the fair value of investment properties is determined with significant unobservable inputs, all investment properties are classified as Level 3 fair value measurements. See note 26 for further details.

Killam's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers in or out of Level 3 fair value measurements for investment properties during the year.

Valuation processes

Internal valuations
Killam measures the vast majority of its investment properties using valuations prepared by its internal valuation team. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations and report directly to a senior member of Killam's management. The internal valuation team's processes and results are reviewed and approved by senior management of Killam, including the President & Chief Executive Officer; Chief Financial Officer; and other executive members, in line with Killam's quarterly reporting dates.

External valuations
Depending on the property asset type and location, management may at times use external valuations to support its fair value, obtaining valuations from independent third-party firms that employ experienced valuation professionals. Killam obtained a total of 9 external property appraisals throughout the year. The internal valuation team also verifies all major inputs used by the external valuator in preparing the valuation report, compares the fair value against the fair value determined in internal models, and holds discussions with the external valuator.

Valuation techniques underlying management's estimation of fair value

Income properties
The apartment and MHC investment properties were valued using the direct income capitalization method. In applying the direct income capitalization method, the stabilized net operating income ("SNOI") of each property is divided by a capitalization rate. The significant unobservable inputs include the following:

- SNOI is based on budgeted rents and expenses and supported by the terms of any existing leases, other contracts or external evidence such as current market rents for similar properties. Budgeted rents and expenses are adjusted to incorporate allowances for vacancy rates, management fees, expected post sale property taxes and market-based maintenance and salary costs. The resulting capitalized value is then adjusted for other costs inherent in achieving and maintaining SNOI, including structural reserves for capital expenditures.
- Capitalization rate is based on location, size and quality of the properties and takes into account market data at the valuation date.

IPUC and land for development
Management uses an internal valuation process to estimate the fair value of properties under development and land for development. Where a site is partially developed, the direct capitalization method is applied to capitalize the pro forma net operating income ("NOI"), stabilized with market allowances, from which the costs to complete the development are deducted. The significant unobservable inputs are based on the following:

- Pro forma SNOI is based on the location, type and quality of the properties and supported by the terms of actual or anticipated future leases, other contracts or external evidence such as current market rents for similar properties. Vacancy rates are based on expected future market conditions, and estimated maintenance costs are based on management's experience and knowledge of the market conditions.
- Costs to complete are derived from internal budgets based on management's experience and knowledge of the market conditions.
- Capitalization rate is risk-adjusted taking into consideration the inherent risk of the development project based on location, size and quality of the properties and taking into account market data at the valuation date.

The primary method of valuation for land acquired for development is the comparable sales approach, which considers recent sales activity for similar land parcels in the same or similar markets. Land values are estimated using either a per acre or per buildable square foot basis based on highest and best use. Such values are applied to Killam's properties after adjusting for factors specific to the site, including its location, intended use, zoning, servicing and configuration.

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

5. Investment Properties (continued)

Valuation Basis

Using the direct income capitalization method, the apartment properties were valued using capitalization rates ("cap-rates") in the range of 3.25% to 7.00%, applied to a stabilized net operating income ("SNOI") of $150.1 million (December 31, 2019 - 3.5% to 8.0% and $137.0 million), resulting in an overall weighted average effective cap-rate of 4.67% (December 31, 2019 - 4.76%). The stabilized occupancy rates used in the calculation of SNOI were in the range of 92.5% to 99.0% (December 31, 2019 - 93.5% to 99.0%). Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.0% to 6.5%, applied to a SNOI of $11.3 million (December 31, 2019 - 5.0% to 6.5% and $10.0 million), resulting in an overall weighted average effective cap-rate of 5.64% (December 31, 2019 - 5.65%). The stabilized occupancy rate used in the calculation of SNOI was 97.8% (December 31, 2019 - 97.8%). Using a discounted cash flow model, the stabilized commercial properties were valued using key inputs determined by management based on review of asset performance and comparable assets in relevant markets. Using the discounted cash flow (DCF) method, fair value is estimated using assumptions regarding benefits and liabilities of ownership over the asset's life, including a terminal value. This method involves the projection of stabilized cash flows on each individual property, with market derived discount rates and terminal capitalization rates applied to the stabilized cash flow to establish the present value of the income stream associated with the asset.

Killam reviewed its valuation of investment properties in light of COVID-19 as at December 31, 2020. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes on Killam's business and operations, both in the short-term and in the long-term. In the long-term scenario the aspects which could be impacted include rental rates, occupancy and cap-rates which would impact the underlying valuation of investment properties. Killam has applied judgement in estimating the valuation given the uncertainties surrounding the economic impact of COVID-19. Key assumptions for the apartment portfolio include reflecting lower rental rate increases and increased vacancy in regions seeing more significant economic downturn, including Alberta and Newfoundland. For commercial assets adjustments were made to lease up assumptions, increased credit allowances and adjustments to the discount and terminal rates.

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

	December 31, 2020			December 31, 2019		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**3.25%**	**7.00%**	**4.67%**	3.50%	8.00%	4.76%
Halifax	**3.75%**	**5.60%**	**4.50%**	3.75%	5.60%	4.49%
Moncton	**4.50%**	**7.00%**	**5.05%**	4.99%	7.00%	5.54%
Fredericton	**5.00%**	**6.00%**	**5.53%**	5.00%	6.00%	5.72%
Saint John	**5.50%**	**6.00%**	**5.79%**	5.75%	6.25%	6.04%
St. John's	**5.00%**	**6.00%**	**5.62%**	5.00%	6.00%	5.63%
Charlottetown	**5.25%**	**5.75%**	**5.50%**	5.28%	6.00%	5.77%
Ontario	**3.25%**	**5.00%**	**3.97%**	3.50%	5.08%	4.06%
British Columbia	**4.08%**	**4.35%**	**4.22%**	—	—	—
Alberta	**4.47%**	**5.00%**	**4.64%**	4.47%	5.00%	4.69%
Other Atlantic	**5.50%**	**7.00%**	**6.38%**	5.75%	8.00%	6.65%
MHCs	**5.00%**	**6.50%**	**5.64%**	5.00%	6.50%	5.65%
Ontario	**5.00%**	**6.50%**	**5.95%**	5.00%	6.50%	5.96%
Nova Scotia	**5.00%**	**6.00%**	**5.30%**	5.00%	6.00%	5.30%
New Brunswick	**5.19%**	**6.50%**	**5.72%**	5.80%	6.50%	6.06%
Newfoundland	**6.00%**	**6.00%**	**6.00%**	6.00%	6.00%	6.00%

Fair Value Sensitivity

The following table summarizes fair value sensitivity of Killam's investment properties valued using the direct income capitalization method:

Cap-rate Sensitivity Increase (Decrease)	Fair Value of Investment Properties (1)	Effective Weighted Average	Fair Value Variance	% Change
(0.50)%	$3,832,018	4.23%	$400,950	12%
(0.25)%	3,617,459	4.48%	186,391	5%
—%	3,431,068	4.73%	—	—%
0.25%	3,253,259	4.98%	(177,809)	(5)%
0.50%	3,097,378	5.23%	(333,690)	(10)%

(1) Includes Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method.

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

6. Assets Held for Sale

Killam determined that a parcel of land for development located in Calgary, AB, previously classified as held for sale no longer met the criteria for this classification and reclassified the land to investment properties. During the year, Killam has recognized a $6.3 million fair value loss on the property, resulting in a carrying value of $8.1 million (Killam's 40% interest).

7. Joint Operations and Investments in Joint Venture

Killam has interests in three properties (seven buildings), three development projects and land for future development that are subject to joint control and are joint operations. Accordingly, the consolidated statements of financial position and consolidated statements of income and comprehensive income include Killam's rights to and obligations for the related assets, liabilities, revenue and expenses. As at December 31, 2020, the fair value of the investment properties subject to joint control was $316.0 million (December 31, 2019 - $261.2 million).

8. Property and Equipment

	December 31, 2020		December 31, 2019	
As at	**Cost**	**Accumulated Depreciation**	**Cost**	**Accumulated Depreciation**
Land	**$270**	**$—**	**$270**	**$—**
Building	**2,107**	**524**	**2,119**	**480**
Heavy equipment	**415**	**155**	**342**	**138**
Vehicles	**2,612**	**1,095**	**2,540**	**931**
Furniture, fixtures and office equipment	**6,710**	**5,726**	**6,594**	**5,504**
Leasehold improvements	**4,456**	**721**	**2,818**	**517**
	16,570	**8,221**	**14,683**	**7,570**
Less accumulated depreciation	**(8,221)**		**(7,570)**	
	$8,349		**$7,113**	

9. Other Current Assets

As at	**December 31, 2020**	December 31, 2019
Restricted cash	**$6,849**	$6,594
Deposits	**3,266**	4,433
Prepaid expenses	**7,052**	5,060
Inventory	**9**	12
	$17,176	$16,099

Restricted cash consists of security deposits and property tax reserves. Deposits consist of funds held in trust for future acquisitions. Inventory relates to manufactured homes for which sales have not closed at year-end.

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

10. Rent and Other Receivables

As at	**December 31, 2020**	December 31, 2019
Rent receivable	**$790**	$1,311
Other receivables	**5,771**	7,714
	$6,561	$9,025

Included in other receivables are laundry revenue, insurance receivables and other non-rental income. The majority of these receivables are less than 60 days old. Killam's policy is to write off tenant receivables when the tenant vacates the unit and any subsequent receipt of funds is netted against bad debts. Killam's bad debt experience has historically been less than 0.3% of revenue. While overall rent collection remained strong despite the ongoing COVID-19 pandemic, certain commercial tenants have faced hardships. Killam recorded an allowance for doubtful accounts for the year ended December 31, 2020, related to its commercial tenants of $0.3 million (December 31, 2019 - $nil).

11. Mortgages and Loans Payable

As at	**December 31, 2020**		December 31, 2019	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**2.69%**	**$1,623,889**	2.90%	$1,427,470
Variable rate	**1.98%**	**7,800**	4.63%	10,800
Total		**$1,631,689**		$1,438,270
Current		**201,345**		276,568
Non-current		**1,430,344**		1,161,702
		$1,631,689		$1,438,270

Mortgages are collateralized by a first charge on the properties of Killam.

As at December 31, 2020, unamortized deferred financing costs of $36.7 million (December 31, 2019 - $32.2 million) and mark-to-market adjustments on mortgages assumed on acquisitions of $0.08 million (December 31, 2019 - $0.01 million) are netted against mortgages and loans payable.

Estimated future principal payments and maturities required to meet mortgage obligations by the 12 month period ending December 31, are as follows:

	Principal Amount	**% of Total Principal**
2021	$201,345	12.1%
2022	211,947	12.7%
2023	257,276	15.4%
2024	256,140	15.4%
2025	245,761	14.7%
Subsequent to 2025	495,835	29.7%
	$1,668,304	100.0%
Unamortized deferred financing costs	($36,691)	
Unamortized mark-to-market adjustments	$76	
	$1,631,689	

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

12. Lease Liabilities

	2020	2019
Balance, beginning of year	**$8,919**	$7,115
Net change in lease liabilities	**654**	1,804
Balance, end of year	**$9,573**	$8,919

As at December 31, 2020, the right-of-use assets and lease liabilities are $9.6 million (December 31, 2019 - $8.9 million). The right-of-use assets are classified as part of investment properties and the lease liabilities are classified in other liabilities on the consolidated statement of financial position. The total lease payments for the year ended December 31, 2020, were $0.3 million (December 31, 2019 - $0.1 million).

13. Credit Facilities

Killam has access to two credit facilities with credit limits of $110.0 million ($130.0 million with the accordion feature) and $10.0 million that can be used for acquisition and general business purposes.

The $110.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). The facility includes a $30.0 million demand revolver and a $80.0 million committed revolver as well as an accordion option to increase the $110.0 million facility by an additional $20.0 million. The committed revolver was increased by $40.0 million on December 23, 2020. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2020.

The $10.0 million demand facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2020.

As at December 31, 2020	**Maximum Loan Amount[1]**	**Amount Drawn**	**Letters of Credit**	**Amount Available**
$110.0 million facility	**$130,000**	**5,000**	**—**	**$125,000**
$10.0 million facility	**10,000**	**2,029**	**1,773**	**6,198**
Total	**$140,000**	**$7,029**	**$1,773**	**$131,198**

As at December 31, 2019	Maximum Loan Amount[1]	Amount Drawn	Letters of Credit	Amount Available
$70.0 million facility	$90,000	—	—	$90,000
$5.0 million facility	5,000	—	1,282	3,718
Total	$95,000	$—	$1,282	$93,718

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

14. Construction Loans

As at December 31, 2020, Killam had access to five variable rate non-revolving demand construction loans, for the purpose of financing development projects, totaling $134.7 million. As at December 31, 2020, $41.3 million was drawn on the construction loans (December 31, 2019 - $24.9 million). Payments are made monthly on an interest-only basis. The weighted-average contractual interest rate on amounts outstanding at December 31, 2020, was 2.37% (December 31, 2019 - 3.32%). Once construction is complete and rental targets achieved, construction financing will be replaced with permanent mortgage financing.

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

15. Accounts Payable and Accrued Liabilities

As at	**December 31, 2020**	December 31, 2019
Accounts payable and other accrued liabilities	**$39,950**	$28,960
Distributions payable	**6,136**	5,668
Mortgage interest payable	**3,434**	3,202
Security deposits	**9,386**	8,784
	$58,906	$46,614

16. Exchangeable Units

	2020		2019	
	Number of Exchangeable Units	**Value**	Number of Exchangeable Units	Value
Balance, beginning of year	**4,153,520**	**$78,668**	4,153,520	$66,207
Exchangeable Units exchanged for Trust Units	**(52,000)**	**(815)**	—	—
Fair value adjustment	**—**	**(7,676)**	—	12,461
Balance, end of year	**4,101,520**	**$70,177**	4,153,520	$78,668

The Exchangeable Units are non-transferable, but are exchangeable, on a one-for-one basis, into Killam Trust Units at any time at the option of the holder. Prior to such exchange, distributions will be made on these Exchangeable Units in an amount equivalent to the distributions that would have been made had the Units been exchanged for Killam Trust Units.

17. Unitholders' Equity

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

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

Unitholders have the right to redeem their Units at the lesser of (i) 90% of the market price of the Trust Unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the year ended December 31, 2020, no unitholders redeemed Units.

The Units issued and outstanding are as follows:

	Number of Trust Units	**Value**
Balance, December 31, 2019	97,863,244	$1,009,166
Distribution Reinvestment Plan	1,190,034	21,372
Restricted Trust Units redeemed	70,549	578
Units issued on exchange of Exchangeable Units	52,000	815
Units issued for cash	4,036,500	65,782
Balance, December 31, 2020	**103,212,327**	**$1,097,713**

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

17. Unitholders' Equity (continued)

Units issued for cash

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
Bought-deal (July 21, 2020)	$17.10	$60,000	$2,785	$57,215	3,510,000
Over-allotment (July 21, 2020)	$17.10	9,000	433	8,567	526,500
Total		$69,000	$3,218	$65,782	4,036,500

Distribution Reinvestment Plan ("DRIP")

Killam's DRIP allows unitholders to acquire additional Units of the Trust through the reinvestment of distributions on their Units. Unitholders who participate in the DRIP receive additional Units equal to 3% of the Units reinvested. Units issued with the DRIP are issued directly from the Trust at a price based on the 10-day volume weighted average closing price of the Toronto Stock Exchange ("TSX") preceding the relevant distribution date, which typically is on or about the 15th day of the month following the distribution declaration.

18. Distributions

Killam paid distributions to its unitholders during 2020 in accordance with its DOT. Distributions declared by the Board of Trustees were paid monthly, on or about the 15th day of each month.

For the year ended December 31, 2020, the distributions declared related to the Trust Units were $68.7 million (year ended December 31, 2019 - $60.8 million). For the year ended December 31, 2020, distributions declared related to the Exchangeable Units were $2.8 million (year ended December 31, 2019 - $2.7 million). The distributions on the Exchangeable Units are recorded in financing costs.

19. Deferred Unit-based Compensation

Restricted Trust Units ("RTUs") are awarded to members of the senior executive team and director-level employees as a percentage of their compensation. The Trust also grants RTUs subject to performance conditions under the RTU Plan for certain senior executives. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs.

The number of RTUs awarded are based on the volume weighted average price of all Trust Units traded on the TSX for the five trading days immediately preceding the date on which the compensation is awarded. The RTUs earn distributions based on the same distributions paid on the Trust Units, and such distributions translate into additional RTUs. The initial RTUs, and RTUs acquired through distribution reinvestment, are credited to each person's account and are not issued to the employee or Board member until they redeem such RTUs. For employees, the RTUs will be redeemed and paid out in Trust Units by December 31 of the year in which the RTUs have vested. Effective Q3-2017, RTUs issued to Trustees will be redeemed and paid, in the issuance of Trust Units, upon retirement from the Board.

The RTUs subject to performance conditions will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period. Killam accounts for the RTUs subject to performance conditions under the fair value method of accounting, and uses the Monte-Carlo simulation pricing model to determine the fair value, which allows for the incorporation of the market based performance hurdles that must be met before the RTUs subject to performance conditions vest.

The RTUs are considered a financial liability because there is a contractual obligation for the Trust to deliver Trust Units (which are accounted for as liabilities, but presented as equity instruments under IAS 32) upon conversion of the RTUs. The RTUs are measured at fair value with changes flowing through the consolidated statements of income and comprehensive income. The fair value of the vested RTUs as at December 31, 2020, is $4.8 million, which includes $2.1 million related to RTUs subject to performance conditions (December 31, 2019 - $5.4 million and $1.4 million). For the year ended December 31, 2020, compensation expense of $1.7 million (year ended December 31, 2019 - $1.9 million) has been recognized in respect of the RTUs.

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

19. Deferred Unit-based Compensation (continued)

The details of the RTUs issued are shown below:

	2020		2019	
For the years ended December 31,	**Number of RTUs**	**Weighted Average Issue Price**	Number of RTUs	Weighted Average Issue Price
Outstanding, beginning of period	**364,875**	**$14.73**	403,730	$13.12
Granted	**114,920**	**19.49**	98,928	17.44
Redeemed	**(133,531)**	**13.09**	(151,222)	12.64
Forfeited	**(7,988)**	**18.57**	(1,529)	12.83
Additional Restricted Trust Unit distributions	**13,458**	**17.82**	14,968	18.88
Outstanding, end of period	**351,734**	**$16.93**	364,875	$14.73

20. Revenue

In accordance with IFRS 15, Management has evaluated the lease and non-lease components of its revenue and has determined the following allocation:

	For the years ended December 31,	
	2020	2019
Rental revenue [1]	**$188,416**	$174,359
Property expense recoveries	**62,806**	58,119
Ancillary revenue	**10,468**	9,687
	$261,690	$242,164

[1] Includes base rent, realty taxes and insurance recoveries, which are outside the scope of IFRS 15.

21. Other Income

	For the years ended December 31,	
	2020	2019
Insurance claim recovery [1]	**$—**	$5,023
Management fee revenue	**593**	756
Interest revenue	**47**	175
Home sale revenue	**1**	105
	$641	$6,059

[1] Insurance claim recovery represents proceeds realized on an insurance settlement from Killam's insurance providers relating to one building, consisting of 29 apartment units located in Charlottetown, PEI, that was lost by fire in 2019.

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

22. Financing Costs

	For the years ended December 31, 2020	2019
Mortgage, loan and construction loan interest	**$44,055**	$41,954
Interest on credit facilities	**671**	1,266
Interest on Exchangeable Units	**2,784**	2,727
Amortization of deferred financing costs	**3,126**	3,093
Amortization of fair value adjustments on assumed debt	**88**	137
Unrealized loss on derivative liability	**483**	235
Interest on lease liabilities	**385**	298
Capitalized interest	**(2,673)**	(2,267)
	$48,919	$47,443

23. Deferred Income Tax

Trusts that satisfy the REIT Exemption are excluded from the specified investment flow-through ("SIFT") definition and therefore will not be subject to taxation under the SIFT Rules. Effective December 31, 2020, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at December 31, 2020, and is therefore not subject to taxation to the extent that income is distributed to unitholders. However, this exemption does not extend to the corporate subsidiaries of Killam that are taxable legal entities. For the year ended December 31, 2020, the deferred tax expense relates to the corporate subsidiary entity of the REIT.

As at December 31,	2019	Recognized in consolidated statement of income and comprehensive income	2020
Deferred tax liabilities (assets) related to:			
Real estate properties	**$180,555**	$11,398	**$191,953**
Loss carryforwards	**(12,819)**	(2,388)	**(15,207)**
Unrealized capital gains	**3,876**	(133)	**3,743**
Other	**3,436**	686	**4,122**
Net deferred tax liabilities	**$175,048**	$9,563	**$184,611**

As at December 31,	2018	Recognized in consolidated statement of income and comprehensive income	2019
Deferred tax liabilities (assets) related to:			
Real estate properties	$134,662	$45,893	**$180,555**
Loss carryforwards	(6,412)	(6,407)	**(12,819)**
Unrealized capital gains	3,363	513	**3,876**
Other	3,071	365	**3,436**
Net deferred tax liabilities	$134,684	$40,364	**$175,048**

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

23. Deferred Income Tax (continued)

The deferred tax expense for the year can be reconciled to the accounting profit as follows:

For the years ended December 31,	**2020**	2019
Income before income taxes	**$155,630**	$324,161
Statutory tax rate	**28.6%**	29.5%
Income tax expense at statutory rates	**44,572**	95,692
Amounts not subject to tax	**(43,196)**	(93,292)
Income taxed at a lower amount	**(3,742)**	(3,876)
Effect of provincial tax rate changes	**(6,013)**	(1,047)
Other	**(155)**	(68)
Change to tax basis in excess of book basis	**18,097**	43,227
Total tax expense	**$9,563**	$40,636

24. Segmented Information

For investment properties, discrete financial information is provided on a property-by-property basis to members of executive management, which collectively comprise the chief operating decision maker ("CODM"). The individual properties are aggregated into segments with similar economic characteristics such as the nature of the property, vacancy rates, long-term growth rates and other characteristics. Management considers that this is best achieved by aggregating into apartments, MHCs and commercial segments. Consequently, Killam is considered to have three reportable segments, as follows:

- Apartment segment - acquires, operates, manages and develops multi-family residential properties across Canada;
- MHC segment - acquires and operates MHC communities in Ontario and Eastern Canada; and
- Commercial segment - includes seven commercial properties.

Killam's administration costs, other income, financing costs, depreciation, fair value adjustments, loss on disposition and deferred tax expense are not reported to the CODM on a segment basis.

The accounting policies of these reportable segments are the same as those described in the summary of significant accounting policies described in note 2 to the consolidated financial statements for the year ended December 31, 2020. Reportable segment performance is analyzed based on NOI. The operating results, and selected assets and liabilities, of the reportable segments are as follows:

Year ended December 31, 2020	**Apartments**	**MHCs**	**Commercial**	**Total**
Property revenue	**$228,915**	**$17,393**	**$15,382**	**$261,690**
Property operating expenses	**(82,767)**	**(6,541)**	**(7,720)**	**(97,028)**
Net operating income	**$146,148**	**$10,852**	**$7,662**	**$164,662**

Year ended December 31, 2019	Apartments	MHCs	Commercial	Total
Property revenue	$211,558	$16,806	$13,800	$242,164
Property operating expenses	(76,820)	(6,342)	(6,666)	(89,828)
Net operating income	$134,738	$10,464	$7,134	$152,336

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

24. Segmented Information (continued)

As at December 31, 2020	**Apartments**	**MHCs**	**Commercial**	**Total**
Total investment properties (1)	**$3,390,089**	**$212,699**	**$139,130**	**$3,741,918**
Mortgages payable/construction loans	**$1,562,861**	**$84,150**	**$26,023**	**$1,673,034**

As at December 31, 2019	Apartments	MHCs	Commercial	Total
Total investment properties (1)	$2,960,601	$202,431	$157,572	$3,320,604
Mortgages payable/construction loans	$1,357,680	$75,577	$29,864	$1,463,121

(1) Total investment properties for the Apartments segment includes IPUC and land held for development.

25. Supplemental Cash Flow Information

	For the years ended December 31,	
	2020	2019
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$44,376**	$41,979
Interest paid on credit facilities	**671**	1,266
	$45,047	$43,245
Net change in non-cash operating assets and liabilities		
Rent and other receivables	**$2,464**	($5,999)
Other current assets	**(794)**	(5,294)
Accounts payable and other liabilities	**12,292**	2,855
	$13,962	($8,438)

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

26. Financial Instruments and Financial Risk Management Objectives and Policies

Killam's principal financial liabilities consist of mortgages, credit facilities, construction loans and trade payables. The main purpose of these financial liabilities is to finance investment properties and operations. Killam has various financial assets, such as tenant receivables, which arise directly from its operations.

Fair Value of Financial Instruments
Fair value is the amount that would be received in the sale of an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of interest-bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for similar term and current credit spreads for debt with similar terms and risks. The fair values of the Trust's financial instruments were determined as follows:

(i) the fair values of the mortgages payable are estimated based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts Killam might pay or receive in actual market transactions;

(ii) the fair value of the deferred unit-based compensation and the Exchangeable Units is estimated at the reporting date, based on the closing market price of the Trust Units listed on the TSX. The performance based RTUs are determined using a pricing model. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values;

(iii) the fair value of the derivative is calculated based on an estimate of the mid-market arbitrage-free price of the swap. The arbitrage-free price comprises the present value of the future rights and obligations between two parties to receive or deliver future cash flows or exchange other assets or liabilities. Future obligations are valued as the sum of the present values as of the valuation date of contractually fixed future amounts and expected variable future amounts, the expected size of which is calculated from the projected levels of underlying variables. Future rights are valued as the sum of the present values of the expected values of contingent future amounts, the existence and size of which are calculated from the projected levels of underlying variables.

The significant financial instruments and their carrying values as at December 31, 2020, and December 31, 2019, are as follows:

As at	**December 31, 2020**		December 31, 2019	
Classification	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets carried at FVTPL:				
Derivative asset	**$—**	**$—**	$295	$295
Financial liabilities carried at amortized cost:				
Mortgages and loans payable	**$1,631,689**	**$1,714,740**	$1,438,270	$1,478,413
Financial liabilities carried at FVTPL:				
Exchangeable Units	**$70,177**	**$70,177**	$78,668	$78,668
Derivative liability [1]	**$188**	**$188**	$—	$—
Deferred unit-based compensation	**$4,784**	**$4,784**	$5,363	$5,363

[1] The $0.2 million derivative liability is included in other non-current liabilities within the consolidated statements of financial position (December 31, 2019 - $0.3 million derivative asset included in other non-current assets).

The interest rates used to discount the estimated cash flows, when applicable, are based on the five-year government yield curve at the reporting date, which is in-line with Killam's weighted average years to maturity of 4.6 years, plus an adequate credit spread, and were as follows:

As at	**December 31, 2020**	December 31, 2019
Mortgages - Apartments	**1.31%**	2.59%
Mortgages - MHCs	**2.31%**	3.84%

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

26. Financial Instruments and Financial Risk Management Objectives and Policies (continued)

Assets and Liabilities Measured at Fair Value

Fair value measurements recognized in the consolidated statements of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
Level 3: Valuation techniques for which any significant input is not based on observable market data.

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the consolidated statements of financial position is as follows:

As at	**December 31, 2020**			December 31, 2019		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets						
Investment properties	**—**	**—**	**$3,741,918**	—	—	$3,320,604
Derivative asset	**—**	**—**	**—**	—	$295	—
Liabilities						
Exchangeable Units	**—**	**$70,177**	**—**	—	$76,668	—
Derivative liability	**—**	**$188**	**—**	—	—	—
Deferred unit-based compensation	**—**	**$3,601**	**$1,183**	—	$3,987	$1,376

Transfers between levels in the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer. There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the year ended December 31, 2020.

Risk Management

Killam may enter into derivative transactions, primarily interest rate swap contracts to manage interest rate risk arising from fluctuations in bond yields, as well as natural gas and oil swap contracts to manage price risk arising from fluctuations in these commodities. It is, and has been, Killam's policy that no speculative trading in derivatives shall be undertaken. The main risks arising from Killam's financial instruments are interest rate risk, credit risk and liquidity risk. These risks are managed as follows:

(i) Interest Rate Risk

Killam is exposed to interest rate risk as a result of its mortgages and loans payable; however, this risk is mitigated through Management's strategy to structure the majority of its mortgages in fixed-term arrangements, as well as, at times, entering into cash flow hedges. Killam also structures its financings so as to stagger the maturities of its debt, minimizing the exposure to interest rate volatility in any one year.

As at December 31, 2020, $56.1 million of Killam's debt had variable interest rates, including four construction loans totaling $41.3 million, amounts drawn on credit facilities of $7.0 million and one demand loan totaling $7.8 million. These loans and facilities have interest rates of prime plus 0.5% - 1.25% (December 31, 2019 - prime plus 0.55% - 1.0%) and consequently, Killam is exposed to short-term interest rate risk on these loans.

Killam's fixed mortgage debt, which matures in the next 12 months, totals $141.2 million. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $1.4 million per year.

(ii) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant.

Credit assessments are conducted for all prospective tenants and Killam also obtains a security deposit to assist in potential recoveries. In addition, receivables balances are monitored on an ongoing basis. Killam's bad debt expense experience has historically been less than 0.3% of revenue. None of Killam's tenants account for more than 4% of the tenant receivables as at December 31, 2020 or 2019.

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

26. Financial Instruments and Financial Risk Management Objectives and Policies (continued)

Killam has considered the cash flow difficulties that may be experienced by commercial and residential tenants due to the impact of COVID-19 and the probability of default. Killam reached agreements with a number of commercial tenants under the Canadian Emergency Commercial Rent Assistance (CECRA) program recording a reduction in commercial revenue of $0.3 million for the year ended December 31, 2020. Killam also entered into rent deferral agreements to minimize credit losses in the event of default. Killam continues to assist residential tenants on a case-by-case basis dependent upon need. The maximum exposure to credit risk is the carrying amount of each class of financial assets.

(iii) Liquidity Risk

Management manages Killam's cash resources based on financial forecasts and anticipated cash flows. Killam structures its financing so as to stagger the maturities of its debt, thereby minimizing Killam's exposure to liquidity risk in any one year. In addition, Killam's apartments qualify for Canadian Mortgage and Housing Corporation ("CMHC") insured debt, reducing the refinancing risk upon mortgage maturities. Killam's MHCs do not qualify for CMHC insured debt; however, MHCs have access to conventional mortgage debt. Management does not anticipate liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector.

During the year ended December 31, 2020, Killam refinanced $205.7 million of maturing apartment mortgages with new mortgages totaling $274.7 million, generating net proceeds of $69.1 million. In addition, during the year ended December 31, 2020, Killam refinanced $13.4 million of maturing MHC mortgages with new mortgages totaling $22.4 million, generating net proceeds of $9.0 million. The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities for the next five years and thereafter:

For the twelve months ending December 31,	Mortgage and loans payable	Construction loans	Credit facilities (1)	Total
2021	$201,345	$41,345	7,029	$249,719
2022	211,947	—	—	211,947
2023	257,276	—	—	257,276
2024	256,140	—	—	256,140
2025	245,761	—	—	245,761
Thereafter	495,835	—	—	495,835
	$1,668,304	$41,345	$7,029	$1,716,678

(1) Killam's $70.0 million credit facility expired in December 2020 and was amended and extended for one year.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Trust for future periods.

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

27. Capital Management

The primary objective of Killam's capital management is to ensure a healthy capital structure to support the business and maximize unitholder value. Killam manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, Killam may adjust the distribution payment to unitholders, issue additional Units, issue debt securities or adjust mortgage financing on properties.

Killam's primary measure of capital management is the total debt to total assets ratio. Killam's strategy, as outlined in the operating policies of its DOT, is for its overall indebtedness not to exceed 70% of total assets. However, Killam's long-term target is to manage overall indebtedness to be below 50%. The calculation of the total debt to total assets is summarized as follows:

As at	December 31, 2020	December 31, 2019
Mortgages and loans payable	**$1,631,689**	$1,438,270
Credit facilities	**7,029**	—
Construction loans	**41,345**	24,851
Total interest bearing debt	**$1,680,063**	$1,463,121
Total assets [1]	**$3,766,987**	$3,371,477
Total debt as a percentage of total assets	**44.6%**	43.4%

[1] Excludes right of use asset of $9.6 million as at December 31, 2020 (December 31, 2019 - $8.9 million).

The above calculation is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. The quantitative sensitivity analysis shown below illustrates the value increase or decrease in Killam's debt to asset ratio given the change in the noted input:

Cap-rate Sensitivity Increase (Decrease)	Fair Value of Investment Properties[1]	Total Assets	Total Debt as % of Total Assets	Change (bps)
(0.50)%	$3,832,018	$4,028,807	41.7%	(460)
(0.25)%	$3,617,459	$3,814,248	44.0%	(230)
—%	$3,431,068	$3,627,857	46.3%	—
0.25%	$3,253,259	$3,450,048	48.7%	240
0.50%	$3,097,378	$3,294,167	51.0%	470

[1] Includes Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method.

28. Commitments and Contingencies

Killam is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of Killam. However, actual outcomes may differ from Management's expectations.

Killam owns a 10% interest of a planned four-phase 829-unit development project in Calgary, Alberta. At the completion of construction of the first phase, which was completed in January 2021, and the achievement of certain conditions, Killam has a $55.0 million commitment in place to purchase three, four-storey apartment buildings, containing 233 residential units.

Killam entered into a supply contract for electricity to hedge its own usage, which is summarized below:

Area	Utility	Usage Coverage	Term	Cost
Ontario	Gas	25%	November 1, 2020 - March 31, 2021	$3.90/GJ
Alberta	Hydro	50%	January 1, 2021 - December 31, 2021	$56.40/MWh

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

29. Financial Guarantees

Killam is the guarantor on a joint and several basis for certain mortgage debt held through its joint operations. As at December 31, 2020, the maximum potential obligation resulting from these guarantees is $83.1 million, related to long term mortgage financing (December 31, 2019 - $85.1 million). The loans held through its joint operations are secured by a first ranking mortgage over the associated investment properties. Killam's portion of the total mortgages for these properties are recorded as a mortgage liability on the consolidated statements of financial position.

Management has reviewed the contingent liability associated with its financial guarantee contracts and, as at December 31, 2020, determined that a provision is not required to be recognized in the consolidated statements of financial position (December 31, 2019 - $nil).

30. Comparative Figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period. Killam reclassified on the consolidated statement of income and comprehensive income, net bad debt expense and recovery of $0.4 million from "property revenue" to "operating expenses" to reflect the nature of these expenses for the year ended December 31, 2019.

31. Related Party Transactions

Killam has construction management agreements with companies owned by a Trustee of Killam. The agreements include a market rate construction management fee of 2.5% and 1.5% development management fee on hard construction costs for the Shorefront development and a 4.0% construction management fee for the Harley Street development, totalling $0.3 million (December 31, 2019 - $0.2 million). These fees are to be paid over the construction period. In addition, these companies supply direct construction services or contract arm’s-length services. For the year ended December 31, 2020, these companies were paid $3.1 million (December 31, 2019 - $2.1 million).

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

The remuneration of directors and other key management personnel, which include the Board of Trustees, President & Chief Executive Officer, Executive Vice President, Chief Financial Officer and other Vice-Presidents of Killam. During 2020, three additional employees were promoted to Vice President and included in the disclosure below. The total remuneration is as follows:

For the years ended December 31,	**2020**	2019
Salaries, board compensation and incentives	**$5,138**	$4,674
Deferred unit-based compensation	**1,727**	1,822
Total	**$6,865**	$6,496

32. Subsequent Events

On January 15, 2021, Killam announced a distribution of $0.05667 per unit, payable on February 15, 2021, to unitholders of record on December 31, 2020.

On January 21, 2021, Killam acquired the remaining 90% interest in the 233-unit Nolan Hill property in Calgary, AB, for $49.5 million.

On January 29, 2021, Killam acquired development land in Charlottetown, PE, for $3.4 million.

On January 29, 2021, Killam acquired a property for future development in Halifax, NS, for $3.0 million.

On February 1, 2021, Killam acquired a 23-unit apartment building in Moncton, NB, for $5.6 million.

On February 1, 2021, Killam acquired a property for future development in Stratford, PE, for $3.8 million.

Five Year Summary

In thousands (except per unit)

Statement of Income Information	**2020**	2019	2018	2017	2016
Revenue	**$261,690**	$242,164	$215,959	$187,377	$175,269
Operating expenses	**($97,028)**	($89,828)	($80,247)	($72,157)	($69,845)
Net operating income	**$164,662**	$152,336	$135,712	$115,220	$105,424
Other income	**$641**	$6,059	$965	$847	$1,227
Financing costs	**($48,919)**	($47,443)	($42,648)	($34,846)	($37,698)
Administration	**($14,745)**	($14,881)	($14,201)	($12,958)	($12,733)
Depreciation	**($630)**	($720)	($859)	($787)	($884)
Fair value adjustments	**$54,620**	$230,079	$127,877	$56,202	($11,231)
Loss on disposition	**$ –**	$(1,269)	($197)	($259)	($264)
Deferred tax recovery (expense)	**($9,590)**	($40,636)	($31,478)	($18,659)	$27,598
Net income	**$146,040**	$283,525	$175,171	$104,760	$71,439
Net income attributable to unitholders/common shareholders	**$146,024**	$283,536	$175,144	$104,732	$67,982

Funds From Operations (FFO)					
FFO	**$104,678**	$93,884	$81,808	$69,873	$58,886
FFO per unit/share (diluted)	**$1.00**	$0.98	$0.94	$0.90	$0.86

Statement of Financial Position Information					
Total assets	**$3,776,560**	$3,380,100	$2,824,406	$2,311,210	$1,987,929
Total liabilities	**$2,008,302**	$1,777,733	$1,655,456	$1,343,488	$1,237,463
Total equity	**$1,768,258**	$1,602,367	$1,168,950	$967,722	$750,466

Statement of Cash Flow Information					
Cash provided by operating activities	**$123,514**	$95,208	$89,738	$82,916	$64,011
Cash provided by financing activities	**$224,396**	$146,708	$237,657	$154,460	$52,356
Cash used in investing activities	**($358,155)**	($232,904)	($335,606)	($250,028)	($106,013)

Unit Information (1)					
Weighted average number of units (2)	**104,340**	95,719	86,949	77,575	67,912
Units outstanding at December 31(2)	**107,314**	102,017	90,212	84,428	71,736
Unit price at December 31	**$17.11**	$18.94	$15.89	$14.22	$11.94
Market Capitalization at December 31(2)	**$1,836,143**	$1,932,201	$1,433,469	$1,200,566	$856,528

(1) Killam converted to a real estate investment trust (REIT) effective January 1, 2016. References to REIT units prior to that date relate to common shares of Killam Properties Inc.

(2) Includes Trust Units and Exchangeable Units.

Executive Team

Philip Fraser
President & Chief Executive Officer

Robert Richardson, FCPA, FCA
Executive Vice President

Dale Noseworthy, CPA, CA, CFA
Chief Financial Officer

Ruth Buckle
Senior Vice President, Property Management

Erin Cleveland, CPA, CA
Senior Vice President, Finance

Michael McLean
Senior Vice President, Developments

Nancy Alexander, CPA, CA
Vice President, Investor Relations & Sustainability

Carrie Curtis, P. Eng.
Vice President, Ontario and Alberta

Jeremy Jackson
Vice President, Marketing

Brian Jessop P. Eng, CPM
Vice President, Operations

Colleen McCarville
Vice President, Human Resources

Trust Information

Auditors
Ernst & Young, LLP
Halifax, Nova Scotia

Solicitors
Bennett Jones, LLP
Calgary, Alberta
Stewart McKelvey
Halifax, Nova Scotia

Registrar and Transfer Agent
Computershare Investor Services Inc.
1500 Robert-Bourassa Blvd
7th Floor
Montreal, Quebec
H3A 3S8

Unit Listing
Toronto Stock Exchange (TSX)
Trading Symbol: KMP.UN

2020 Annual Distribution
$0.68 per unit

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866.453.8900

Investor Inquiries
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902.442.0374

Annual Meeting
The Annual Meeting of Unitholders will be held on **Friday, May 7, 2021, 10:30 am** Atlantic Time, at 3700 Kempt Road, Halifax, NS. Unitholders are encouraged to attend via webcast.

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Killam
APARTMENT REIT