Killam
home for all

2022

Annual Report

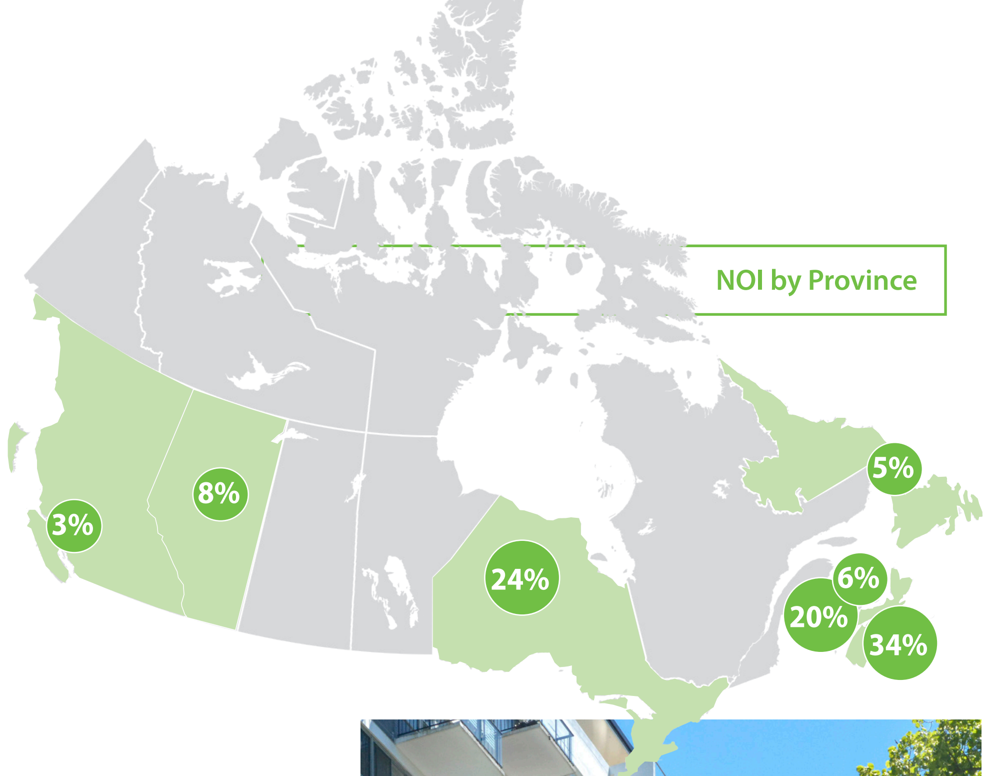
Table of Contents

"The key to our continued success is creating strong customer relationships and delivering value through well-maintained and environmentally responsible properties."

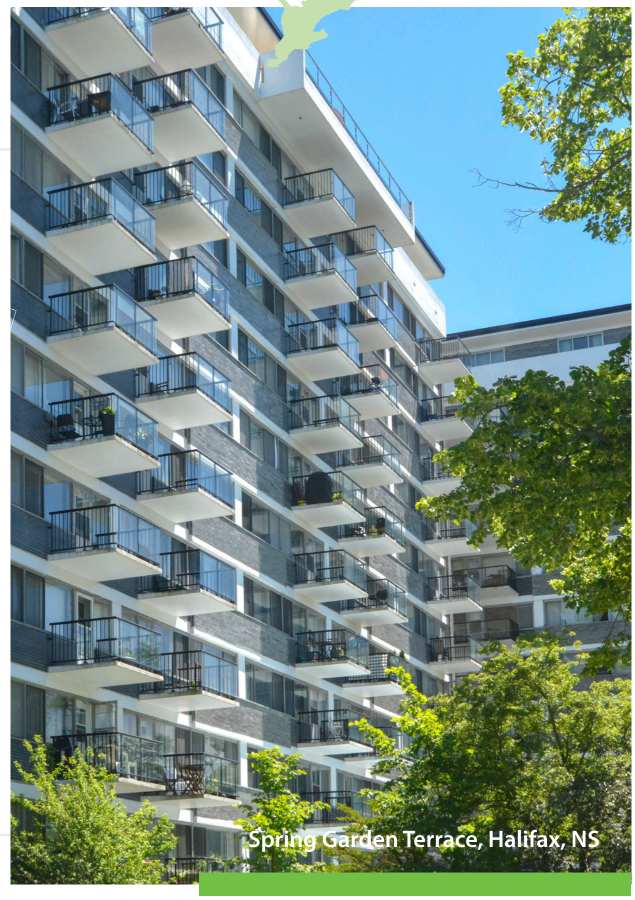
- Philip Fraser

Frontier, Ottawa, ON

About Killam



Killam Apartment REIT (Killam) is one of Canada's largest residential real estate investment trusts, owning, operating, and developing apartments and manufactured home communities (MHCs). Killam's real estate portfolio is located in **Atlantic Canada, Ontario, Alberta, and British Columbia.**



Spring Garden Terrace, Halifax, NS

Net Operating Income (NOI) By Segment

Apartments
89%

MHCs
6%

Commercial
5%

Killam's Five Core Values

Killam's five Core Values are the foundation of our strong, vibrant culture. We are committed to these values in all aspects of our business.

Build Community

Creative Solutions

Do the Right Thing

Curb Appeal

Strong Customer Relationships

Philip Fraser
President and CEO

LETTER TO UNITHOLDERS

Dear Unitholder,

I am pleased to report Killam's financial and operating highlights for 2022. This year, Killam celebrated its 20th anniversary on February 21, 2022. During the year, we made progress on all our strategic targets, including growing our portfolio through new acquisitions and completing three developments in Ontario. We achieved 4.7% same property NOI growth and earned $1.11 per unit in funds from operations (FFO), a 3.7% increase from $1.07 in 2021. We recorded positive results across all business segments, including 6.0% same property NOI growth in our MHC portfolio and 7.9% same property NOI growth at our commercial properties. Our success would not be possible without our talented team operating across the country.

Notwithstanding our many achievements, Killam's unit price declined in 2022 and unitholders' total return was (28%). Killam's performance was aligned with most Canadian real estate companies and real estate investment trusts (REITs), as the Canadian REIT Index delivered a (17%) return in 2022, due primarily to interest rate increases. This performance followed the REIT sector's second-best year in 2021, a year in which Killam achieved a 41% total return for unitholders.

Adapting to an evolving economic landscape

Multi-family market fundamentals in Canada are the strongest we have seen in 20 years. Killam achieved its highest occupancy level in its operating history, ending the year at 98.3% occupancy, and recording the lowest tenant turnover rate at 22%, down from our pre-COVID turnover rate of approximately 33%.

In 2022, Canada welcomed 493,000 new immigrants, up from 226,000 in 2021 and 284,000 in 2020. Over the last three years, Canada's population has increased by over 1.5 million after accounting for international students and seasonal workers. According to Statistics Canada, Halifax was the second-fastest growing region in the country last year at 4.4%, just behind Moncton's impressive 5.4% population growth. Not only are Atlantic Canadian cities growing at record rates, but age cohorts are trending younger, as people move to the region from within Canada and internationally. Killam is experiencing unprecedented demand for apartments in all of its Canadian markets as a result of the increasing population.

Our manufactured housing business also reported strong performance during 2022. Killam's seasonal resorts outperformed previous years as Canadians chose local and affordable summer vacation destinations, benefitting Killam's communities throughout Ontario and New Brunswick.

Increasing the supply of housing and maintaining affordability for Canadians

While we recognize the strong industry fundamentals, we must acknowledge the looming housing supply and affordability crisis in Canada. As many suggest, it is imperative that we build "more housing of all kinds" to reduce the current supply and demand imbalance. Affordability is the other element that must be discussed in conjunction with the housing supply crisis; however, with the multi-family rental market at an unhealthy 2% national vacancy rate, rent control is not the solution. The majority of existing rental units in Canada are under rent control, with the three most populous provinces – Ontario, Quebec and BC – accounting for 75% of the Canadian rental market. Including Manitoba and PEI, almost 80% of the country is under rent control. Over the last three years, these provinces have averaged an allowable 1.4% rent increase per year for tenants remaining in the same apartment unit. This means the rent for tenants who have remained in their units has increased less than the cost of inflation. Conversely, for those looking to move to a new or existing building, rents are substantially higher due to the supply and demand imbalance and the rising cost of construction.

With property taxes increases, government-owned water utilities and regulated electric utilities continuing to rise at the rate of inflation, and HST applicable to multi-family housing, all expenses associated with all three levels of government now account for more than 62% of Killam's operating costs and negatively impact housing affordability in the country.

Killam's average rent per unit at the end of 2022 was $1,289 per month for our 19,500 units. We have 52% of our units with monthly rents under $1,200. Moreover, 64% of our portfolio meets the Canadian Mortgage and Housing Corporation (CMHC) definition of affordability, with monthly rents less than 30% of the respective markets' median household income.

This includes 850 deeply subsidized apartment units that we provide through partnerships with non-profit organizations. In addition, we have recently increased our commitment to provide affordable units by utilizing the CMHC MLI select program, adding an additional 310 units as long-term affordable units.

The development of new housing is a key factor in solving the housing crisis and remains a fundamental component of Killam's growth strategy. Killam's commitment to new developments distinguishes us from our peers and allows us to grow our portfolio in strong markets, while adding new energy efficiencies and smart building technology. In 2022, we completed three developments in the Ontario region: The Kay, a 128-unit property in Mississauga; Latitude, a 208-unit building in Ottawa; and Luma, a 168-unit building also in Ottawa. These developments are exceptional additions to Killam's portfolio and will contribute positively to our earnings growth.

We finished the year with three developments under construction. The Governor, in Halifax, and Civic 66, in Kitchener, are both expected to be completed in mid-2023. The Carrick, in Waterloo, is expected to be completed in late 2024. Killam is also working on planning entitlements for a number of infill development opportunities associated with properties purchased specifically for that purpose, as well as on existing rental properties where additional density can be achieved through the planning process. We are currently working on long-term planning for large redevelopment sites in Halifax and Waterloo to build between 3,000 and 4,000 units. We are also designing and working on near-term planning approval for several 100 to 200-unit developments in those same markets. This pipeline will provide many years of internal growth for Killam.

3.7%

Growth in FFO per Unit(1)

3.3%

Growth in AFFO per Unit(1)

$152M

Completed Developments(2)

4.7%

Same Property NOI Growth(3)

45.3%

Total Debt as a Percentage of Total Assets(4) as at Dec. 31, 2022

(1) FFO per unit and AFFO per unit are non-IFRS financial ratios. For a full description and reconciliation of non-IFRS measures, see pages 26 and 52, respectively.

(2) Represents Killam's ownership interest.

(3) Same property NOI growth is a supplementary financial measure. For a full description of same property metrics, see page 26.

(4) Total debt as a percentage of total assets is a capital management measure. For a full description of total debt as a percentage of total assets, see page 26.

Inclusive and sustainable growth

At Killam, our Environmental, Social, and Governance (ESG) priorities are embedded in our business strategy and reflect our commitment to a more inclusive and sustainable future.

During the year, we continued to invest in Killam's greatest asset – our employees. We prioritize employee retention and talent development, invest in employee mental health and wellness support, and focus on creating a diverse and inclusive workplace where our colleagues can thrive. Our core values emphasize the importance of sustainable practices, corporate social responsibility, and the overall well-being of employees and residents. We are committed to these values in all aspects of our business.

Our energy efficiency investments totaled $8.5 million in 2022. This includes 12 additional solar photovoltaic installations, 114 Level II electric vehicle charging stations, boiler and heat pump replacements, electricity and water conservation projects. We are proud this investment also includes geothermal heating and cooling installations at two of our developments, The Kay and Civic 66. These advanced green initiatives will reduce Killam's environmental impact and mitigate our exposure to volatile energy costs.

In 2022, we continued to strengthen our public disclosure reporting under the Task Force on Climate-Related Financial Disclosure (TCFD) framework. We are performing a holistic assessment to identify Killam's exposure to climate-related risks and opportunities, and we continue on our journey to be TCFD-aligned by 2024. This analysis is essential for Killam to transition to a net-zero economy in the future, and will drive targeted action and decision-making.

Our ESG accomplishments for the year are highlighted on page 21 of this report.

Killam forward

Killam is in a solid financial position as a result of the strength of our stable income-producing portfolio and our team of experienced professionals.

We are committed to being an ESG leader, nurturing a culture of diversity and inclusion, developing quality purpose-built rentals, and investing in initiatives to improve operating efficiency. As we move forward, we remain committed to delivering clean, safe, quality housing to tenants who are proud to call our properties home. I want to thank our Killam team across the country for their hard work, our residents for choosing Killam for their home, and our unitholders for their continued support.

We recognize that Canadians will rely on us more than ever, and Killam will be there for our residents and communities as reputable and responsible corporate citizens.

Killam's annual unitholders' meeting will be held on May 5, 2023, at 9:00 AM Atlantic Time at the Courtyard by Marriott, 5120 Salter Street, Halifax, Nova Scotia.

Thank you for your support and investment in Killam.

Yours truly,

Philip Fraser
President & CEO

2022 Highlights

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

As at and for the years ended	2022	2021	2020
Operations			
Property revenue	**$328,847**	$290,917	$261,690
Net operating income (NOI)	**$206,912**	$183,235	$163,854
Net income	**$122,532**	$285,527	$146,040
Funds from operations (FFO)(1)	**$132,603**	$119,235	$104,678
FFO per unit (diluted)(1)	**$1.11**	$1.07	$1.00
Adjusted funds from operations (AFFO)(2)	**$111,557**	$100,438	$86,816
AFFO per unit (diluted)(2)	**$0.93**	$0.90	$0.83
Distributions declared per unit	**$0.70**	$0.69	$0.68
AFFO payout ratio(2)	**75%**	76%	82%
Financial Position			
Total assets	**$4,859,530**	$4,578,507	$3,776,560
Total liabilities	**$2,586,199**	$2,467,038	$2,008,302
Total equity	**$2,273,331**	$2,111,469	$1,768,258
Units outstanding(3)	**120,699**	114,562	107,314
Total debt as a percentage of total assets(4)	**45.3%**	45.0%	44.6%
Interest coverage ratio(5)	**3.31x**	3.53x	3.36x
Debt to normalized EBITDA(5)	**11.21x**	11.33x	10.78x
Portfolio Information			
Apartment units	**19,527**	18,685	17,048
MHC sites	**5,975**	5,875	5,875
Commercial square footage	**946,372**	941,000	750,000
Average rent per apartment suite	**$1,289**	$1,228	$1,184
Average rent per MHC site	**$290**	$283	$260


Luma Ottawa, ON


Luma Ottawa, ON


Luma Ottawa, ON

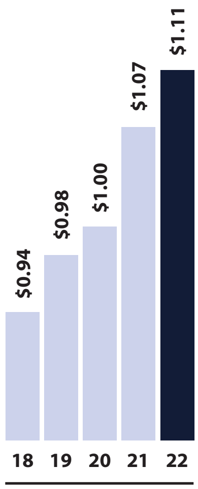
(1) FFO, and applicable per unit amounts, are calculated by Killam as net income adjusted for fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, depreciation on an owner-occupied building, interest expense related to lease liabilities, and non-controlling interest. FFO is calculated in accordance with the REALPAC definition. A reconciliation between net income and FFO is included on page 52.

(2) AFFO, and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less an allowance for maintenance capital expenditures ("capex") (a three-year rolling historical average capital investment to maintain and sustain Killam's properties), commercial leasing costs and straight-line commercial rents. AFFO is calculated in accordance with the REALPAC definition. Management considers AFFO an earnings metric. A reconciliation from FFO to AFFO is included on page 52.

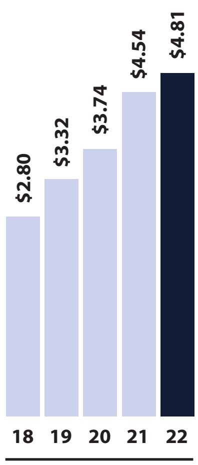
(3) Units outstanding at December 31, 2022, include 116,800,552 REIT units and 3,898,020 exchangeable units.

(4) Total debt as a percentage of total assets is a capital management measure. For a full description of total debt as a percentage of total assets, see page 26.

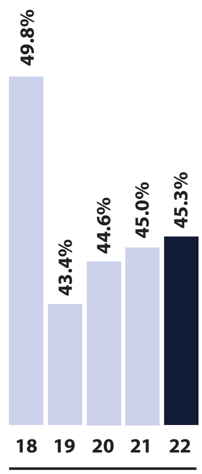
(5) Interest coverage ratio and debt to normalized EBITDA are non-IFRS financial ratios. For a full description and reconciliation of non-IFRS measures, see pages 26 and 57, respectively.



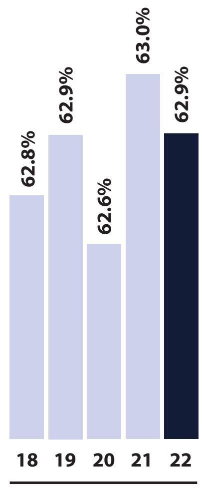
Funds from Operations per Unit (*diluted*)(1)



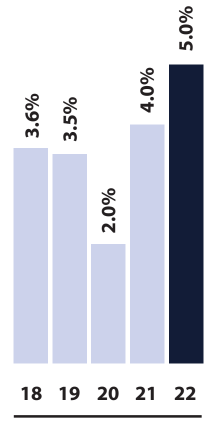
Value of Real Estate Portfolio (*$billions*)



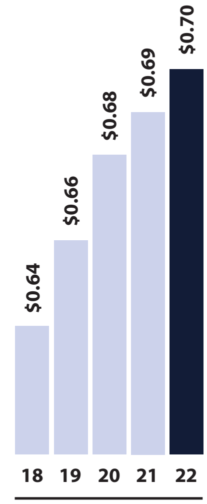
Total Debt as a Percentage of Total Assets(2)



Operating Margin (%)



Total Same Property Revenue Growth (%)



Distribution per Unit to Unitholder

(1) FFO, and applicable per unit amounts, are calculated by Killam as net income adjusted for fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, depreciation on an owner-occupied building, interest expense related to lease liabilities, and non-controlling interest. FFO is calculated in accordance with the REALPAC definition. A reconciliation between net income and FFO is included on page 52.

(2) Total debt as a percentage of total assets is a capital management measure. For a full description of total debt as a percentage of total assets, see page 26.

Saginaw Park, Cambridge, ON

2022 Performance

Grow Same Property NOI(1)

Killam achieved **4.7%** same property NOI(1) growth.

(1) Same property NOI growth is a supplementary financial measure. For a full description of same property metrics, see page 26.

Expand the Portfolio through Acquisitions

Killam grew its portfolio by **$118.6 million** in 2022, with acquisitions in Halifax, Waterloo, Guelph, Victoria, and Courtenay. Management made the decision to slow its acquisition program in the latter half of 2022 due to rising interest rates and increased economic uncertainty.

Diversify Geographically

Killam generated **35.8%** of NOI outside Atlantic Canada.

Develop High-Quality Properties

Killam completed **three developments** in 2022: Latitude, The Kay and Luma. The Governor, a 12-unit building located in Halifax, is expected to be completed in mid-2023. Killam also broke ground on The Carrick, a 139-unit building in Waterloo, ON, and the second phase of Nolan Hill in Calgary.

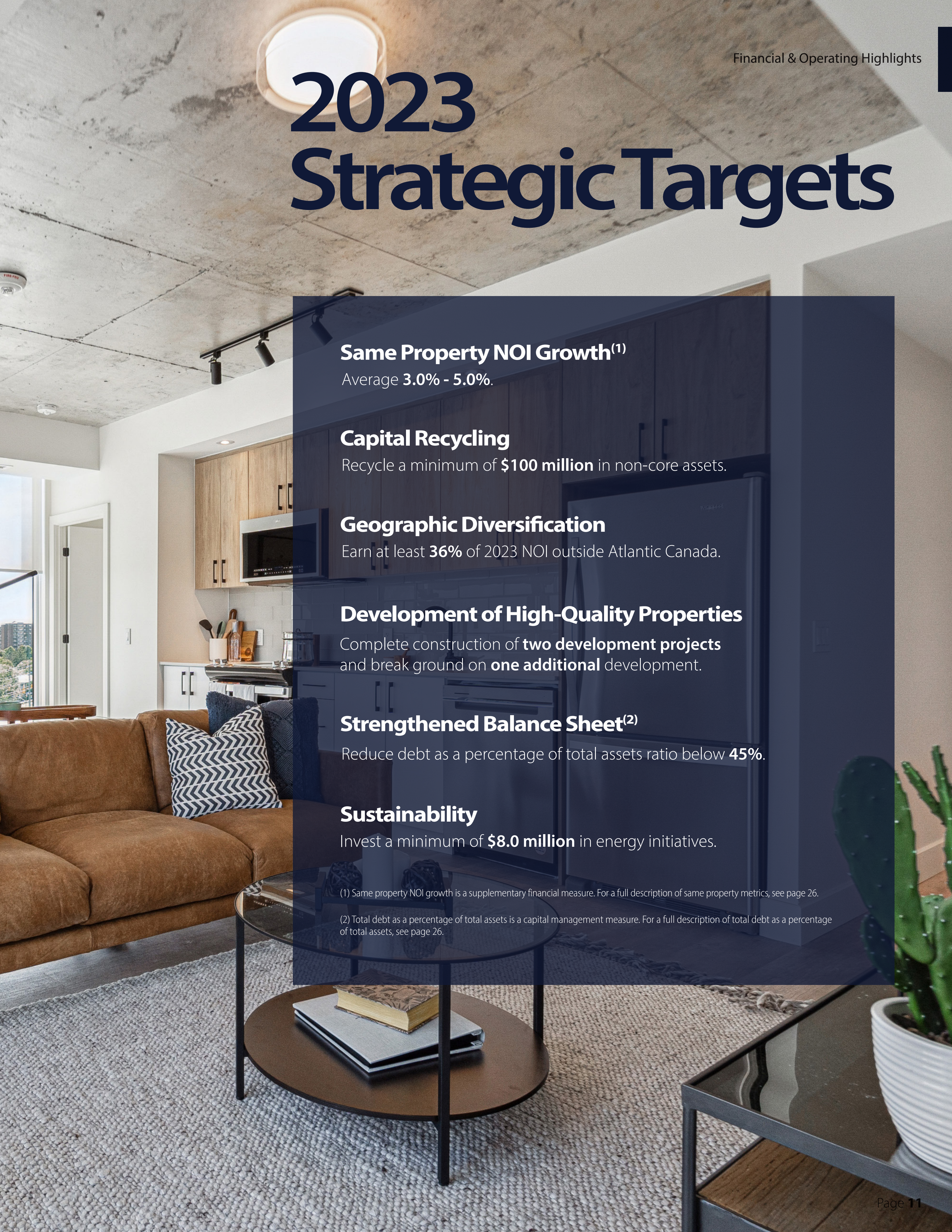
Strengthen the Balance Sheet

Killam's debt as a percentage of total assets(2) was **45.3%** at December 31, 2022. The increase in the ratio is attributable to: a higher balance on Killam's credit facilities related to acquisitions during the year; and the recognition of a fair value write-down ($19.9 million) on investment properties following a moderate expansion of cap-rates in the latter part of the year.

(2) Total debt as a percentage of total assets is a capital management measure. For a full description of total debt as a percentage of total assets see page 26.

Improve Sustainability

Killam invested **$8.5 million** in energy-efficiency projects.



2023 Strategic Targets

Same Property NOI Growth[1]

Average **3.0% - 5.0%**.

Capital Recycling

Recycle a minimum of **$100 million** in non-core assets.

Geographic Diversification

Earn at least **36%** of 2023 NOI outside Atlantic Canada.

Development of High-Quality Properties

Complete construction of **two development projects** and break ground on **one additional** development.

Strengthened Balance Sheet[2]

Reduce debt as a percentage of total assets ratio below **45%**.

Sustainability

Invest a minimum of **$8.0 million** in energy initiatives.

(1) Same property NOI growth is a supplementary financial measure. For a full description of same property metrics, see page 26.

(2) Total debt as a percentage of total assets is a capital management measure. For a full description of total debt as a percentage of total assets, see page 26.

Growing Earnings Through Existing Portfolio

Growing earnings from our asset base is an important part of our strategy to maximize long-term value for our unitholders. Killam had a successful year of record-high occupancy and positive rental rate growth on suite turns in 2022, buoyed by strong population growth and demand out-pacing the housing supply.

Killam generated 5.0% revenue growth from our same property portfolio in 2022. Despite inflationary headwinds resulting in above-average expense growth, we achieved 4.7% overall same property NOI growth[1] in 2022, exceeding our original target for the year.

Killam's suite repositioning program continued to meet market demand for new, high-quality finishes across the portfolio. Over the years, we have developed an efficient, fine-tuned upgrade process with the ability to reposition most units within 28 days, providing residents with industry-leading finishes based on appeal, functionality and durability.

(1) Same property NOI growth is a supplementary financial measure. For a full description of same property metrics, see page 26.

315 Heritage Dr, Waterloo, ON

Crossing at Belmont, Victoria, BC

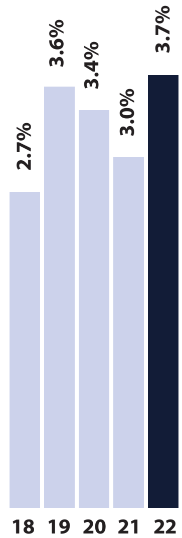
180 Mill, London, ON

Quinpool Towers

Killam invested $3.2 million in common area upgrades at Quinpool Towers, a 233-unit building located on the Halifax Peninsula. We identified the opportunity to deliver expanded amenity space for our residents, including utlizing and renovating historically unused vacant space on the second level to create a social room and a board room. A fitness center was also added on the ground floor. These renovations have been well received by residents and are expected to contribute to record demand for the property in the coming year.

Social Room | Quinpool Towers, Halifax, NS

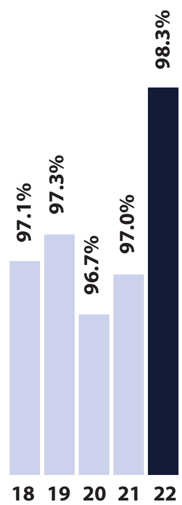
Fitness Centre | Quinpool Towers, Halifax, NS



Same Property Apartment Average Rental Rate Growth(1)

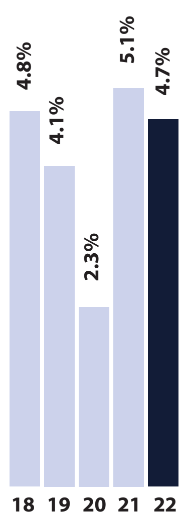
Killam produced healthy same property apartment average rental rate growth of 3.7%. Strong market fundamentals and Killam's revenue-enhancing programs continued to optimize top-line growth.

(1) Same property average rental rate growth is a supplementary financial measure. For a full description of same property metrics, see page 26.



Same Property Apartment Occupancy

Killam's same property apartment portfolio achieved record-high occupancy of 98.3% in 2022. Occupancy is strong throughout our portfolio across the country.



Same Property Net Operating Income Growth(2)

Same property NOI increased 4.7% in 2022 due to overall revenue growth of 5.0% and expense increase of 5.4%. Killam's 2022 same property operating margin was 63.3%.

(2) Same property NOI growth is a supplementary financial measure. For a full description of same property metrics, see page 26.

2022 Acquisitions

In 2022, Killam completed $119 million in acquisitions during the first half of the year, expanding our portfolio in Halifax, Waterloo, Guelph and on Vancouver Island. We slowed acquisition activity during the second half of the year, following rapidly rising interest rates and increasing economic uncertainty.

We continue to be active in identifying potential acquisitions that will complement our existing portfolio; however, we have a highly selective acquisition approach and are prepared to be patient as we navigate the current economic environment.

1876 Riverside Dr, Courtenay, BC

621 Crown Isle Blvd, Courtenay, BC

2022 Developments

$152 million of developments completed in 2022[1]

Developing high-quality properties in our core markets is an important component of our long-term growth strategy. Since starting our development program in 2010, Killam has completed over $450 million in development projects, totaling more than 1,700 units in 16 development projects.

Killam advanced its development pipeline in 2022 with the completion of three properties totaling $152 million[1] – the largest year of development completions in Killam's history. The Kay, a 128-unit building in Mississauga, opened to residents in April and was fully leased by August. With our partner, we completed two additional developments in Ottawa: Latitude, a 208-unit building, and Luma, a 168-unit building. These Ottawa developments are also experiencing strong initial lease-up activity, and the three completed developments are expected to contribute to NOI and FFO growth in the coming year.

Developments completed in 2022 have added an additional 500 units to Killam's portfolio outside of Atlantic Canada.

1 The Kay, Mississauga

2 Luma, Ottawa

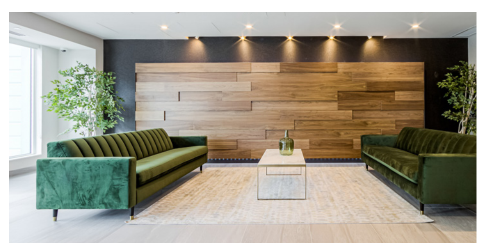
3 Latitude, Ottawa

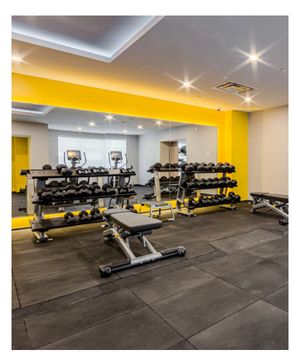
(1) Represents Killam's ownership interest.

The Kay

The Kay opened in April 2022 and includes many energy-efficient technologies, such as geothermal heating and cooling systems, optimal window glazing and insulation, electric vehicle charging stations, and separately metered water and hydro.

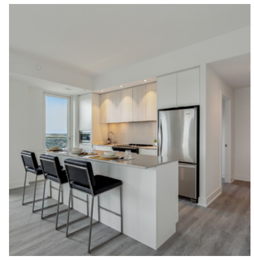
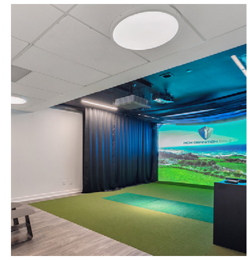
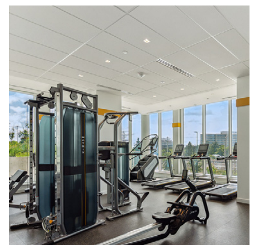
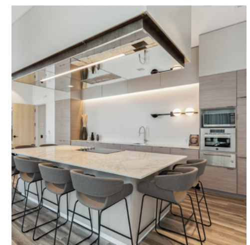
Q2-2022	128	$60.0M	100%
Completion	Units	Cost	Occupancy





Latitude

Latitude is the second phase of a four-phase development by Killam and RioCan REIT, located in the east end of Ottawa. The property offers extensive amenity space and includes green features, such as geothermal heating and cooling, and submetered water and hydro.

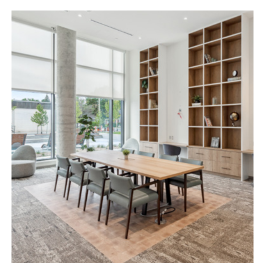
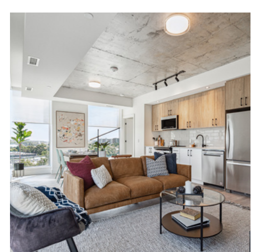
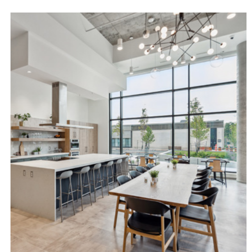






Q1-2022	208	$43.5M	50%
Completion	Units	Cost(1)	Interest

Luma

Luma, developed in partnership with RioCan REIT, is located in Ottawa and provides 17,500 square feet of resident amenity space, including a fitness centre and yoga studio, a library, and a common entertainment room.



Q2-2022	168	$48.0M	50%
Completion	Units	Cost(1)	Interest

(1) Represents Killam's 50% ownership interest.

Developments Underway

At the close of 2022, Killam had three developments in progress in Halifax, Waterloo, and Kitchener, which will contribute an additional 320 high-quality units to Killam's portfolio. Killam has an experienced development team and a pipeline of high-quality development opportunities across Canada that will continue to be a significant lever for our earnings growth and value creation.

Civic 66, Kitchener, ON

Civic 66, Kitchener, ON



Q2-2023
Completion

169
Units

$69.7M
Cost

Governor, Halifax, NS



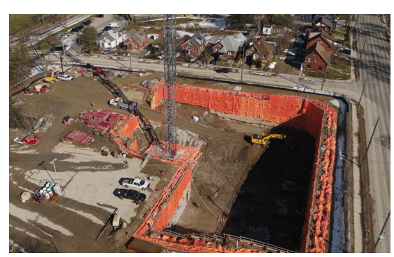
Q2-2023
Completion

12
Units

$24.3M
Cost

The Carrick, Waterloo, ON





2024
Completion

139
Units

$83.5M
Cost

Forward

From the Chair of the Governance and ESG Committee

"Killam is dedicated to advancing its Environmental, Social, and Governance practices. In 2022, Killam progressed towards its long-term sustainability targets. We are proud of our efforts to decrease Killam's environmental footprint, uphold best practice governance, and foster sustainable economic growth. Killam's targets are established with the intention of creating a meaningful impact on our communities, and encompass initiatives which include a focus on reducing greenhouse gas emissions (GHG) and prioritizing resident satisfaction and employee engagement. These practices are not only the right thing to do, but fundamentally drive good business and sustainable growth.

Looking ahead, we will keep learning and evolving as we continue to develop our sustainability program. Killam is committed to improving disclosure and is focused on implementing a net zero plan in the years ahead. We look forward to issuing Killam's 2022 ESG report in May 2023, and we invite you to read our most recent ESG disclosure on our website, which highlights the green initiatives that we have implemented across our business."

– Manfred Walt, Trustee and Chair, Killam's Governance and ESG Committee

Our ESG Targets

Environmental Long-Term Targets

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

Social Long-Term Targets

- **Increase employee volunteer hours by 25% by 2025[3].**
- **Increase number of affordable housing units by 20% by 2025[3].**
- **Maintain resident satisfaction score above 85%, annually.**

Governance Long-Term Targets

- **Continue to participate in GRESB[4] survey annually, targeting a minimum increase of 5% each year to reach GRESB 4-star rating by 2025, and continue to expand ESG disclosure.**
- **Increase the diversity of employees by 2025, including a 25% increased representation of employees who identify as racialized, Disabled, and as LGBTQ2+[3].**

(1) Scope 1 and 2 emissions from 2020 levels.

(2) Operational controlled electricity.

(3) From 2020 levels.

(4) GRESB is a mission-driven and investor-led organization that provides actionable and transparent ESG data to financial markets.

87% resident satisfaction

We are very pleased to report that Killam achieved a strong 87% resident satisfaction score[1] for 2022. Killam completes a third-party managed comprehensive resident survey every year to ensure its properties and services meet residents expectations. Killam's satisfaction rating has been greater than 86% for the ten years that it has commissioned this survey.

13% of apartment portfolio units certified

Ensuring our buildings have the best operating and healthy living standards for Killam's residents is a priority. Programs such as Canada's Certified Rental Building (CRB) Program assess these standards. In 2022, we certified an additional 1,500 units through the CRB Program, resulting in 13% of our portfolio having a building certification. Killam will continue to pursue additional building certifications each year, and we are well on our way to reaching our goal of 20% of our portfolio by 2025.

Over 1,000 units committed to long-term affordability[2]

We recognize that housing affordability is a challenge in Canada and work actively to do our part. In 2022, we increased our long-term commitment to affordable housing through CMHC's innovative MLI Select mortgage loan insurance product. We ended the year with over 1,000 apartment units with a long-term affordable[2] commitment, an 18% increase from 2021. At year-end, 64% of our 19,500 units remain affordable, as defined by CMHC.

Over 700 hours of community giving

Employees participated in our Killam Community Giving Campaign, which ran over six weeks and resulted in over 700 hours of employee time donated to communities in need, through programs such as baking for community shelters, volunteering time at food banks, and participating in community clean-up.

Administered in-house diversity & inclusion workshops

In 2022, Killam engaged a third-party consulting firm, Uprise Consultants, to administer a series of in-house Diversity & Inclusion workshops at our corporate office, and had 45% of our corporate office employees in attendance. We continue to prioritize developing a more diversified employee base across our organization, and offer a selection of online and in-person training opportunities to all employees.

15% increase in GRESB score

Killam achieved a 15% increase in our GRESB score from the prior year, earning an additional green star and resulting in a three-star designation for the 2022 GRESB real estate assessment. Killam also earned a GRESB Public Disclosure survey rating of "A", outperforming the GRESB global rating.

Continued progress on climate-related financial disclosures

We continued to develop our sustainability reporting by refining our process under the Task Force on Climate-Related Financial Disclosure (TCFD) framework, and by aligning the reporting of our ESG information with the Sustainability Accounting Standards Board (SASB) and the Global Reporting Index (GRI). We remain committed to increasing our climate change disclosure in the coming years.

(1) Performed by Narrative Research, a third party provider.

(2) Defined by CMHC as units with monthly rent less than 30% of the local market's median household income.

Home for all

Killam's portfolio offers a wide range of housing. From students to young professionals, working families to retired seniors, or subsidized housing to premium units: Killam is proud to provide a "Home for all". We deliver clean, safe, quality housing to residents who are proud to call our properties home.

When you rent with Killam, you play a part in making a difference. We measure our value by more than just our bottom line – our definition of success includes the amount of good we do for our people, our community, and our planet.

As a market leader, we recognize our responsibility to optimize Killam's social impact by supporting our communities. In 2022, Killam donated over $2.3 million through four main channels, including our Home Away from Home hospital suite donations, annual cash donations to various charitable partners, rent relief programs and affordability assistance, and through our Trustee donation program.

$192K	$137K	$1.9M	$90K
Suite Donations	Cash Donations	Affordability Assistance	Trustee Donations

Community Giving Campaign

In 2022, Killam's six-week Community Giving Campaign encouraged employees to play an active part in their community, donating time, offering expertise, and making a positive impact for those in need. Throughout the course of this campaign, over 110 Killam employees gave back to their community through initiatives such as donating to food banks, taking part in a fall clean-up-day at a women's support shelter, raising awareness of and providing financial support for those in need, baking cookies for a local shelter, organizing food and toy drives, and serving meals at a soup kitchen.

#KillamCares #BuildCommunity

Welcoming Ukrainian Refugees

In 2022, Killam assisted refugee families from war-torn Ukraine. Despite the housing crisis in Canada and Killam's record-low vacancy across the country, we provided homes for 57 Ukrainian families spread across six provinces, over a 90-day period.

In addition to providing a home for these families, Killam provided over $140,000 in rent relief, helped with government documentation, employment, and connection to support services, and in many instances, donated furniture and household items.

We are proud to assist these Ukrainian families and help give them a sense of safety and security as they start their new lives in Canada.

#CreativeSolutions #DoTheRightThing

Table of Contents

PART I

Business Overview and Strategy

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

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

1) Increase earnings from the existing portfolio;

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

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

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

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

Basis of Presentation

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

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

Declaration of Trust

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

Investment Guidelines

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

Operating Policies

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

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

Forward-Looking Statements

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

In some cases, forward-looking statements can be identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "potential", "continue", "target", "committed", "priority", "remain", "strategy", or the negative of these terms or other comparable terminology, and by discussions of strategies that involve risks and uncertainties.

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

Readers should be aware that these forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward-looking statements, including: the effects and duration of the local, international or global events, such as the COVID-19 pandemic, and any government responses thereto; national and regional economic conditions (including rising interest rates and inflation), and the availability of capital to fund further investments in Killam's business. Further information regarding these risks, uncertainties and other factors may be found under the "Risk Management" section in this document and under the "Risk Factors" section in Killam's most recent AIF. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements contained, or incorporated by reference, in this MD&A.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events contained therein may not occur. Although Management believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated.

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

Non-IFRS Financial Measures

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

Non-IFRS Financial Measures

- Funds from operations (FFO) is a non-IFRS financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALPAC. FFO, and applicable per unit amounts, are calculated by Killam as net income adjusted for fair value gains (losses), interest expense related to Exchangeable Units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, depreciation on an owner-occupied building, interest expense related to lease liabilities, and non-controlling interest. FFO is calculated in accordance with the REALPAC definition. A reconciliation between net income and FFO is included on page 52.
- Adjusted funds from operations (AFFO) is a non-IFRS financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALPAC. AFFO, and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less an allowance for maintenance capital expenditures ("capex") (a three-year rolling historical average capital investment to maintain and sustain Killam's properties), commercial leasing costs and straight-line commercial rents. AFFO is calculated in accordance with the REALPAC definition. Management considers AFFO an earnings metric. A reconciliation from FFO to AFFO is included on page 52.
- Adjusted cash flow from operations (ACFO) is a non-IFRS financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALPAC. ACFO is calculated by Killam as cash flow provided by operating activities with adjustments for changes in working capital that are not indicative of sustainable cash available for distribution, maintenance capital expenditures, commercial leasing costs, amortization of deferred financing costs, interest expense related to lease liabilities and non-controlling interest. Management considers ACFO a measure of sustainable cash flow. A reconciliation from cash provided by operating activities to ACFO is included on page 55. ACFO is calculated in accordance with the REALPAC definition.
- Adjusted earnings before interest, tax, depreciation and amortization ("adjusted EBITDA") is calculated by Killam as net income before fair value adjustments, gains (losses) on disposition, income taxes, interest, depreciation and amortization. A reconciliation is included on page 57.
- Normalized adjusted EBITDA is calculated by Killam as adjusted EBITDA that has been normalized for a full year of stabilized earnings from recently completed acquisitions and developments, on a forward-looking basis. A reconciliation is included on page 57.
- Net debt is a non-IFRS measure used by Management in the computation of debt to normalized adjusted EBITDA. Net debt is calculated as the sum of mortgages and loans payable, credit facilities and construction loans (total debt) reduced by the cash balances at the end of the period. The most directly comparable IFRS measure to net debt is debt.

Non-IFRS Ratios

- Interest coverage is calculated by dividing adjusted EBITDA by mortgage, loan and construction loan interest and interest on credit facilities. The calculation is included on page 57.
- Debt service coverage is calculated by dividing adjusted EBITDA by mortgage loan and construction loan interest, interest on credit facilities and principal mortgage repayments. The calculation is included on page 57.
- Per unit calculations are calculated using the applicable non-IFRS financial measures noted above, i.e. FFO, AFFO and/or ACFO, divided by the basic or diluted number of units outstanding at the end of the relevant period.
- Payout ratios are calculated using the distribution rate for the period divided by the applicable per unit amount, i.e. AFFO and/or ACFO.
- Debt to normalized adjusted EBITDA is calculated by dividing net debt by normalized adjusted EBITDA. The calculation is included on page 57.

Supplementary Financial Measures

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

Capital Management Financial Measure

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

PART II

Key Performance Indicators

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

1) FFO per Unit – A standard measure of earnings for real estate entities. Management is focused on growing FFO per unit.

1) AFFO per Unit – A standard measure of earnings for real estate entities. Management is focused on growing AFFO per unit.

2) Payout Ratio – Killam monitors its AFFO and ACFO payout ratios and targets lower payout ratios. The ACFO payout ratio is a measure to assess the sustainability of distributions. The AFFO payout ratio is used as a supplementary financial measure. Although Killam expects to sustain and grow distributions, the amount of distributions will depend on debt repayments and refinancings, capital investments, and other factors which may be beyond the control of the REIT.

3) Same Property NOI – This measure considers Killam's ability to increase its same property NOI, removing the impact of recent acquisitions, dispositions and developments.

4) Occupancy – Management is focused on maximizing occupancy while also managing the impact of higher rental rates. This measure is a percentage based on gross potential residential rent less dollars of lost rent from vacancy, divided by gross potential residential rent.

5) Rental Increases – Management expects to increase average annual rental rates and tracks average annual rate increases.

6) Total Debt as a Percentage of Total Assets – Killam's primary measure of its leverage is total debt as a percentage of total assets. Killam's DOT operating policies stipulate that overall indebtedness is not to exceed 70% of Gross Book Value. Total debt as a percentage of total assets is calculated by dividing total interest-bearing debt by total assets, excluding right-of-use assets.

7) Weighted Average Interest Rate of Mortgage Debt and Total Debt – Killam monitors the weighted average cost of its mortgage and total debt.

8) Weighted Average Years to Debt Maturity – Management monitors the weighted average number of years to maturity on its debt.

9) Debt to Normalized Adjusted EBITDA – A common measure of leverage used by lenders, this measure considers Killam's financial health and liquidity. In normalizing recently completed acquisitions and developments, Killam uses a forward-looking full year of stabilized earnings. Generally, the lower the debt to normalized adjusted EBITDA ratio, the lower the credit risk.

10) Debt Service Coverage – A common measure of credit risk used by lenders, this measure considers Killam's ability to pay both interest and principal on outstanding debt. Generally, the higher the debt service coverage ratio, the lower the credit risk.

11) Interest Coverage – A common measure of credit risk used by lenders, this measure considers Killam's ability to pay interest on outstanding debt. Generally, the higher the interest coverage ratio, the lower the credit risk.

Financial and Operational Highlights

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

For the years ended December 31,	2022	2021	Change (1)
Operating Performance			
Property revenue	**$328,847**	$290,917	13.0%
Net operating income	**$206,912**	$183,235	12.9%
Net income	**$122,532**	$285,527	(57.1)%
FFO (2)	**$132,603**	$119,235	11.2%
FFO per unit – diluted (2)	**$1.11**	$1.07	3.7%
AFFO (1)	**$111,557**	$100,438	11.1%
AFFO per unit – diluted (2)	**$0.93**	$0.90	3.3%
Weighted average number of units outstanding – diluted (000s)	**119,678**	111,626	7.2%
Distributions paid per unit (3)	**$0.70**	$0.69	1.4%
AFFO payout ratio – diluted (2)	**75%**	76%	(100) bps
Portfolio Performance			
Same property NOI (2)	**$182,318**	$174,138	4.7%
Same property NOI margin (2)	**63.3%**	63.5%	(20) bps
Same property apartment occupancy	**98.3%**	97.0%	130 bps
Same property apartment weighted average rental increase (4)	**3.7%**	3.0%	70 bps

As at December 31,	2022	2021	Change (2)
Leverage Ratios and Metrics			
Total debt as a percentage of total assets	**45.3%**	45.0%	30 bps
Weighted average mortgage interest rate	**2.74%**	2.58%	16 bps
Weighted average years to debt maturity	**3.8**	4.0	(0.2) years
Debt to normalized EBITDA (2)	**11.21x**	11.33x	(1.1)%
Debt service coverage (2)	**1.51x**	1.53x	(1.3)%
Interest coverage (2)	**3.31x**	3.53x	(6.2)%

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

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

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

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

Summary of 2022 Results and Operations

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

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

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

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

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

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

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

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

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

2022 Strategic Targets and Performance

Growth in Same Property NOI	
2022 Target	Achieve same property NOI growth averaging 2.0%–3.0%.
2022 Performance	Killam exceeded its target, achieving 4.7% same property NOI growth in 2022.

Expand Portfolio	
2022 Target	Complete a minimum of $150 million in acquisitions.
2022 Performance	Killam grew its portfolio by $118.6 million in 2022, with acquisitions in Halifax, Waterloo, Guelph, Victoria, and Courtenay. Management made the decision to slow its acquisition program in the latter half of 2022 due to rising interest rates and economic uncertainty.

Geographic Diversification	
2022 Target	Earn at least 35% of 2022 NOI outside Atlantic Canada.
2022 Performance	Killam exceeded its target, generating 35.8% of 2022 NOI outside Atlantic Canada.

Development of High-Quality Properties	
2022 Target	Complete construction of four buildings and break ground on two additional developments in 2022.
2022 Performance	Killam completed three developments in 2022: Latitude, The Kay and Luma. Due to construction delays, The Governor, a 12-unit building located in Halifax, is expected to be completed in mid-2023. Killam also broke ground on The Carrick, a 139-unit building in Waterloo, ON, and the second phase of Nolan Hill in Calgary.

Strengthened Balance Sheet	
2022 Target	Maintain debt as a percentage of total assets ratio below 45%.
2022 Performance	Killam's debt as a percentage of total assets was 45.3% as at December 31, 2022. The increase in the ratio is attributable to a higher balance on Killam's credit facilities from acquisitions during the year and the recognition of fair value losses ($19.9 million) related to investment properties due to a moderate expansion of cap-rates in the latter part of the year.

Sustainability	
2022 Target	Invest a minimum of $8.0 million in energy initiatives in 2022.
2022 Performance	Killam exceeded its target, investing $8.5 million in energy-efficiency initiatives in 2022.

2023 Strategic Targets

Growth in Same Property NOI	
2023 Target	Achieve same property NOI growth averaging 3.0% – 5.0%.

Capital Recycling	
2023 Target	Sell a minimum of $100 million of non-core assets.

Geographic Diversification	
2023 Target	Earn at least 36% of 2023 NOI outside Atlantic Canada.

Development of High-Quality Properties	
2023 Target	Complete construction of two development projects and break ground on one additional development in 2023.

Strengthened Balance Sheet	
2023 Target	Reduce debt as a percentage of total assets to below 45%.

Sustainability	
2023 Target	Invest a minimum of $8.0 million in energy initiatives in 2023.

Outlook

Strong Demand for Rental Housing Expected to Drive Market Rents Higher

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

Continued Expansion of Unit Repositioning Program

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

Inflation and Higher Operating Expenses

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

Positive Same Property NOI Expected

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

Population Growth and Opportunity in Halifax

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

$94 Million of Developments Expected to be Completed in 2023

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

Increased Borrowing Costs on Mortgage Renewals

Killam has $276.5 million of mortgages maturing in 2023, with an average interest rate of 3.07%, and a further $308.7 million maturing in 2024, with an average interest rate of 2.56%. With current borrowing costs above these levels, Management anticipates higher interest expense on refinancings. Management has diversified Killam’s mortgages to avoid dependence on any one lending institution and has staggered maturity dates to mitigate interest rate risk. Killam's mortgage maturity schedule is included on page 58. Killam expects to reduce its variable rate interest expense in 2023. Management is focused on reducing its variable rate debt through the placement of permanent fixed rate mortgages on its completed developments, increased CMHC insured mortgages on its existing portfolio, and from its planned capital recycling program. Management is committed to reducing debt as a percentage of total assets to 45% or below in 2023.

PART III

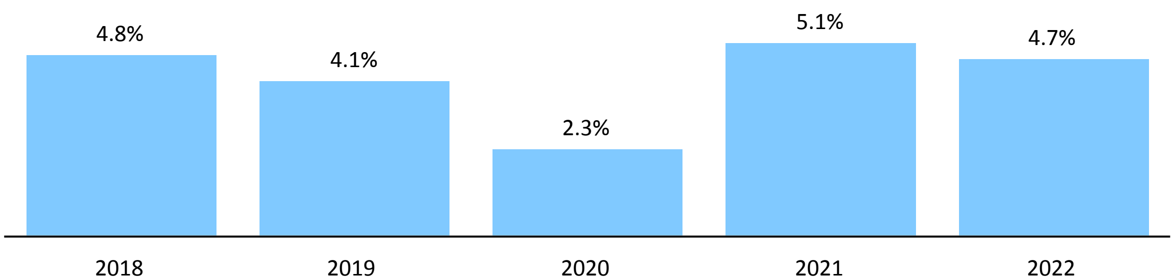
Business Strategy

Increase Earnings From the Existing Portfolio

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

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

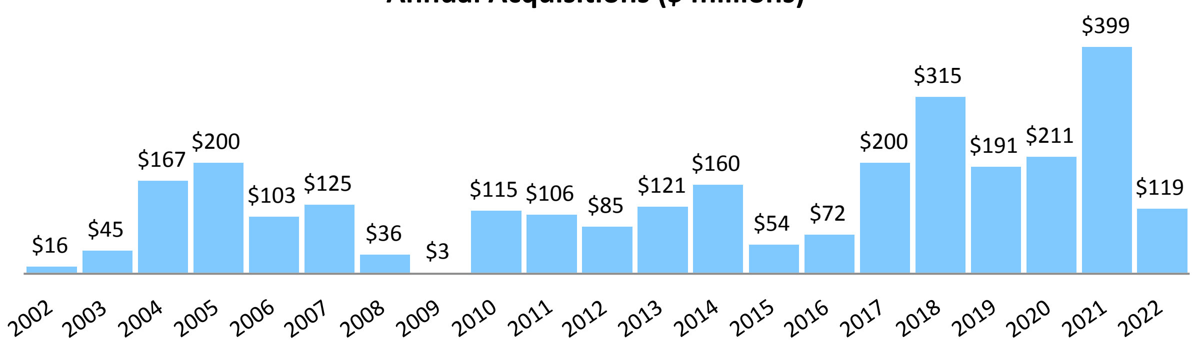
Historic Same Property NOI Growth



Expand the Portfolio through Acquisitions

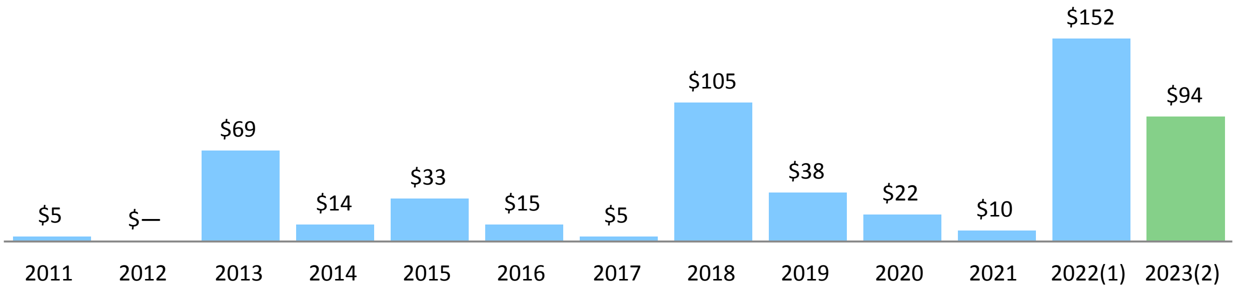
Killam owns and operates one of Canada's newest apartment portfolios. Newer properties require less maintenance capital to operate and are generally preferred by tenants. Killam also acquires well-maintained, well located, older properties that offer attractive earnings potential. Killam continues to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

Annual Acquisitions ($ millions)



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

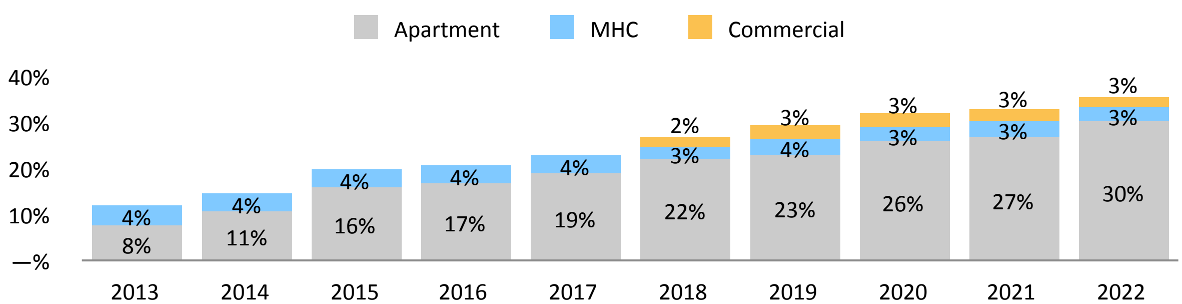
Apartment Developments Complete ($ millions)



(1) In 2022, there were two completed developments in which Killam has a 50% ownership; as such, only Killam's portion of related development costs has been included in this total.
(2) Developments expected to be completed in 2023.

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

% of Killam's NOI Generated Outside Atlantic Canada



Committed to ESG

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

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

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

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

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

Sustainability Policy

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

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

Killam's 2022 ESG Progress

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

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

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

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

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

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

Portfolio Summary

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

Apartment Portfolio				
	Units (1)	**Number of Properties**	**NOI ($) (2)**	**NOI (2) (% of Total)**
Nova Scotia				
Halifax	5,847	67	$59,941	29.0%
Sydney	139	2	$1,467	0.7%
	5,986	69	$61,408	29.7%
New Brunswick				
Moncton	2,246	39	$18,425	8.9%
Fredericton	1,529	23	$13,421	6.5%
Saint John	1,202	14	$7,789	3.7%
Miramichi	96	1	$707	0.3%
	5,073	77	$40,342	19.4%
Ontario				
Ottawa	1,592	11	$11,856	5.7%
London	523	5	$5,894	2.8%
Kitchener-Waterloo-Cambridge-GTA	1,839	13	$21,329	10.3%
	3,954	29	$39,079	18.8%
Newfoundland and Labrador				
St. John's	955	13	$7,971	3.9%
Grand Falls	148	2	$804	0.4%
	1,103	15	$8,775	4.3%
Prince Edward Island				
Charlottetown	1,163	24	$9,448	4.6%
Summerside	86	2	$589	0.3%
	1,249	26	$10,037	4.9%
Alberta				
Calgary	764	4	$7,619	3.7%
Edmonton	882	6	$9,323	4.5%
	1,646	10	$16,942	8.2%
British Columbia				
Victoria	516	5	$6,842	3.3%
Total Apartments	**19,527**	**231**	**$183,425**	**88.6%**

Manufactured Home Community Portfolio				
	Sites	**Number of Communities**	**NOI ($) (2)**	**NOI (2) (% of Total)**
Nova Scotia	2,850	18	$5,295	2.5%
Ontario	2,284	17	$6,166	3.0%
New Brunswick (3)	671	3	$758	0.4%
Newfoundland and Labrador	170	2	$401	0.2%
Total MHCs	**5,975**	**40**	**$12,620**	**6.1%**

Commercial Portfolio (4)				
	Square Footage (5)	**Number of Properties**	**NOI ($) (2)**	**NOI (2) (% of Total)**
Prince Edward Island (5)	383,222	1	$2,632	1.3%
Ontario	311,106	2	$5,062	2.5%
Nova Scotia (6)	218,829	5	$2,736	1.3%
New Brunswick	33,215	1	$437	0.2%
Total Commercial	**946,372**	**9**	**$10,867**	**5.3%**
Total Portfolio		**280**	**$206,912**	**100.0%**

(1) Unit count includes the total unit count of properties held through Killam's joint arrangements. Killam has a 50% ownership interest in apartment properties in Ontario, representing a proportionate ownership of 672 units of the 1,343 units in these properties. Killam manages the operations of all the co-owned apartment properties.
(2) For the year ended December 31, 2022.
(3) Two of Killam's New Brunswick MHC communities have seasonal operations, which typically commence in mid-May and run through the end of October.
(4) Killam also has 181,117 SF of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.
(5) Square footage represents 100% of the commercial property located in PEI.
(6) Square footage includes Killam's 50% ownership interest in two office properties that are third-party managed.

Unique Portfolio Features

Atlantic Canada's Market Leader

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

Diversified Exposure to Rent Control

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

Prince Edward Island

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

Nova Scotia

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

Ontario

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

British Columbia

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

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

CMHC-Insured Debt Available for Killam's Apartment Portfolio

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

A Focus on Affordable Housing

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

Providing High Quality Customer Service

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

Geographic Diversification

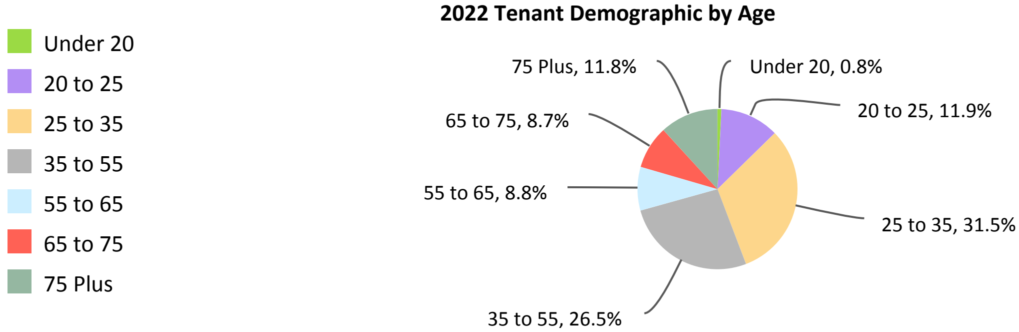
Killam is focused on increasing its geographic diversification through the acquisition and development of properties in its core markets in Ontario, Alberta and British Columbia. Killam's Ontario apartment portfolio consists of 3,954 apartment units, up from 225 units in 2010 when Killam first entered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

Mark-to-Market Rent Opportunity

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

Diverse Tenant Demographics Contribute to Stable Occupancy

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



Core Market Update

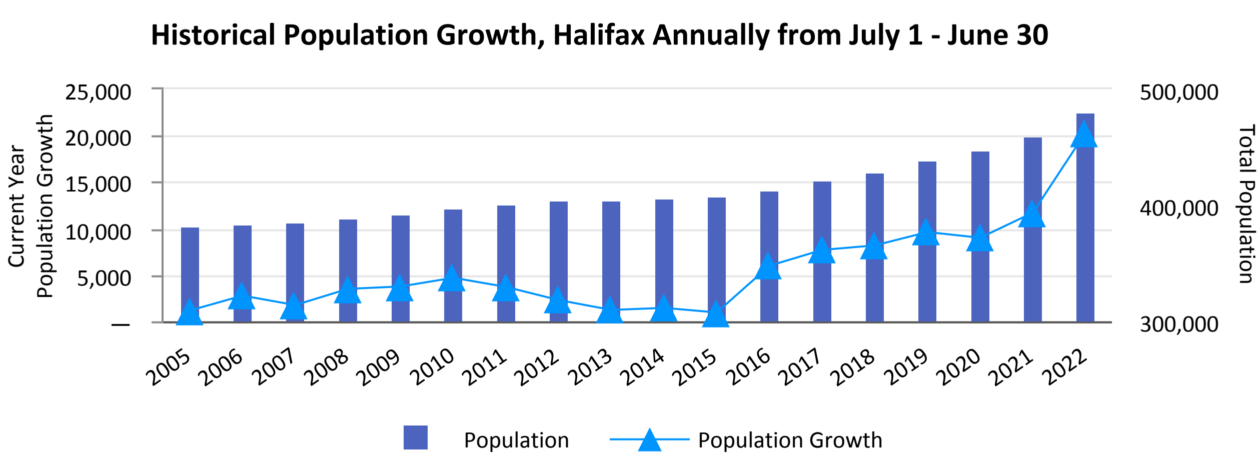
Halifax

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

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

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

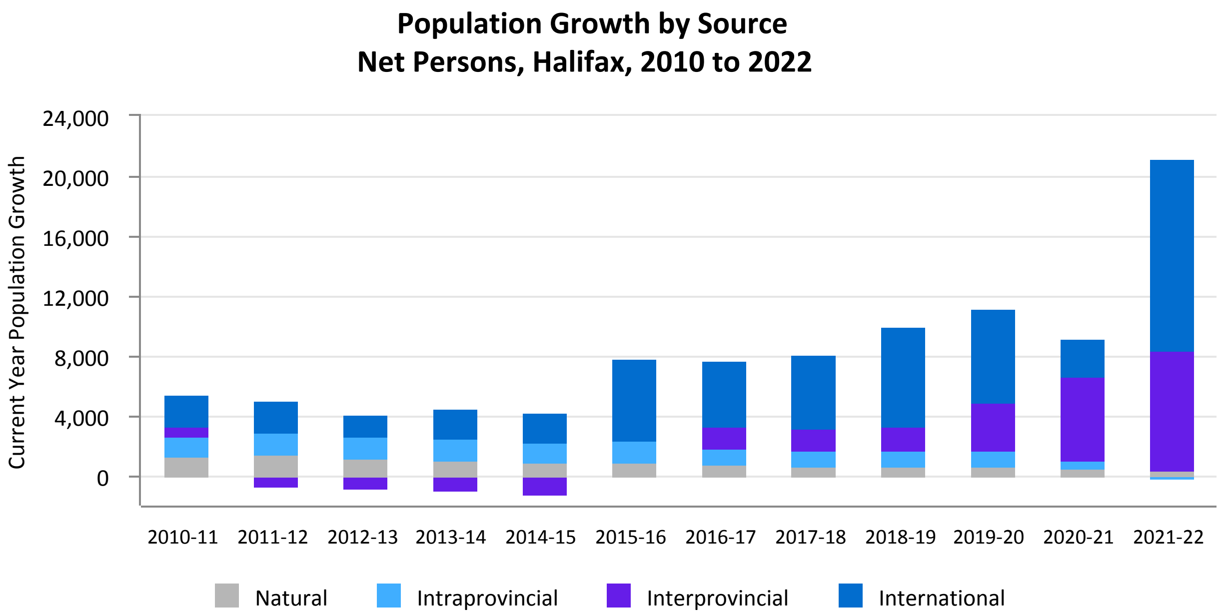
The following chart summarizes Halifax's population growth from 2005 to 2022:



Source: Statistics Canada

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

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



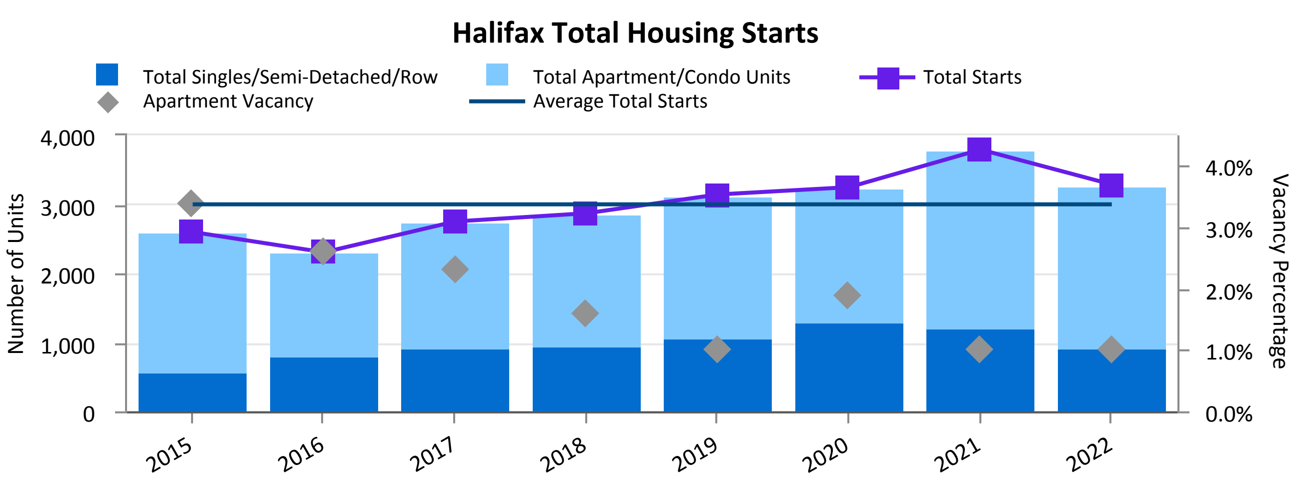
Source: Statistics Canada

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

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

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

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



Source: CMHC

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

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

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

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

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

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

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

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

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

PART IV

2022 Operational and Financial Results

Consolidated Results

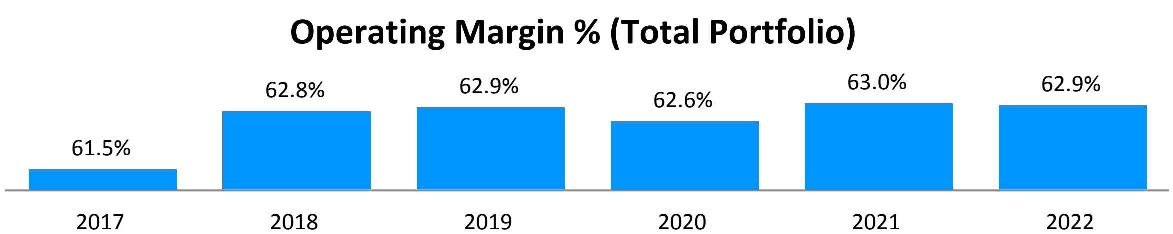
For the years ended December 31,

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

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

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

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



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

Apartment Results

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

Apartment Revenue

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

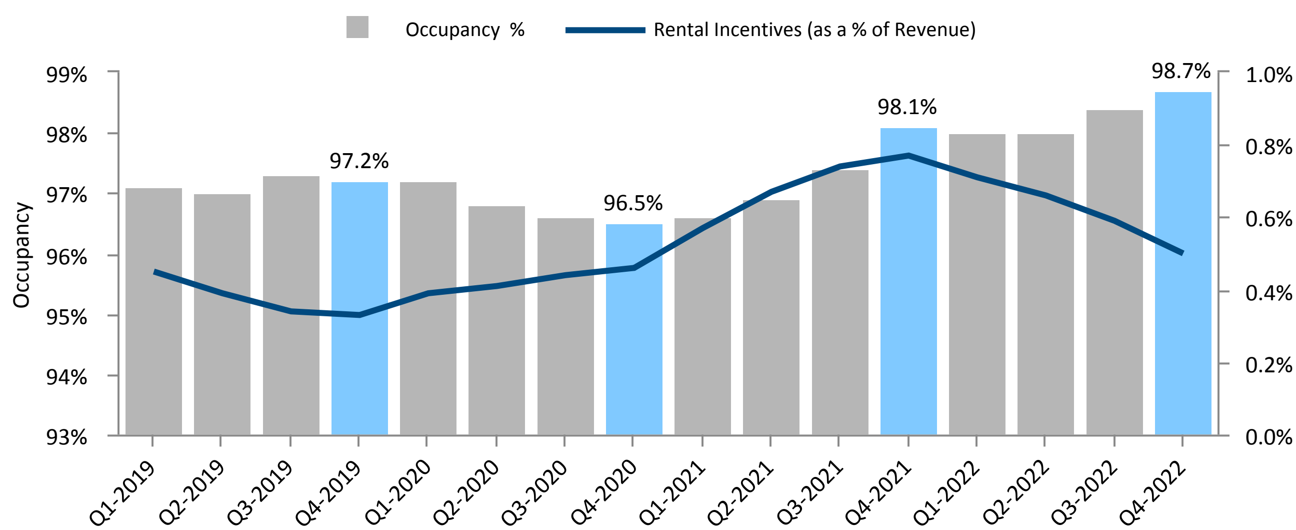
Dollar amounts in thousands of Canadian dollars (except as noted)

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

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

(1) Occupancy as a percentage of residential rent is calculated as vacancy (in dollars) divided by gross potential residential rent (in dollars) for the period.
(2) Total 2022 occupancy for Ottawa was impacted by Latitude and Luma, recently completed development projects undergoing initial lease-up.
(3) Total 2021 occupancy for Calgary was impacted by Nolan Hill, a 233-unit development that was undergoing initial lease-up during the first half of 2021.

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



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

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

Year-Over-Year Average Rent Analysis by Core Market

As at December 31,

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

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

Same Property Rental Increases – Tenant Renewals Versus Unit Turns

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

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

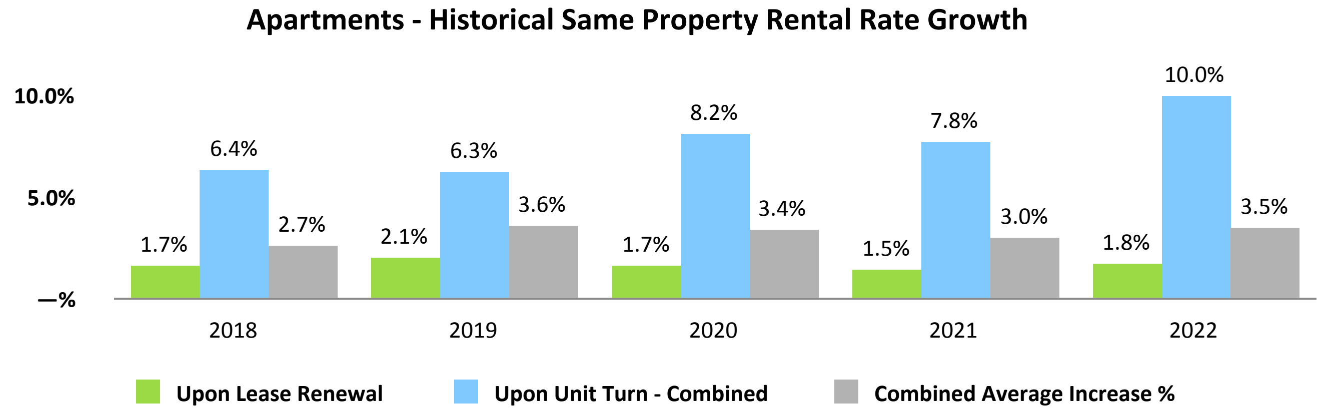
Upon turn, Killam will typically generate rental increases by moving rental rates to market and, where market demand exists, by upgrading units for unlevered returns of 10%–15% on capital invested. Killam saw a 50 bps increase in its same property weighted average rental increase year-over-year, up from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

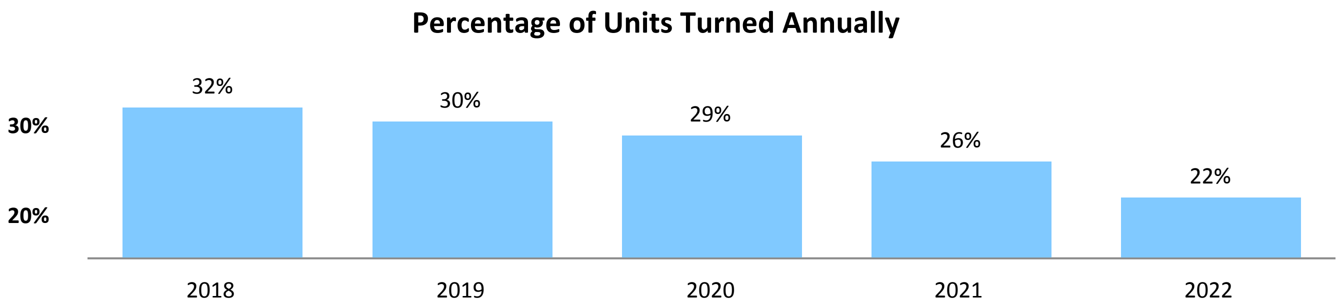
For the years ended December 31,	**2022**		2021	
	Rental Increases	Turnovers & Renewals (1)	Rental Increases	Turnovers & Renewals (1)
Lease renewal	**1.8%**	**78.2%**	1.5%	74.1%
Unit turn	**10.0%**	**21.8%**	7.8%	25.9%
Rental increase (weighted avg)	**3.5%**		3.0%	

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

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

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





Apartment Expenses

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

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

Property Operating Expenses

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

Same Property Utility and Fuel Expenses

For the years ended December 31,	**2022**	2021	% Change
Natural gas	**$8,534**	$6,284	35.8%
Electricity	**7,442**	7,327	1.6%
Water	**6,143**	6,067	1.3%
Oil & propane	**1,463**	1,101	32.9%
Other	**74**	68	8.8%
Total utility and fuel expenses	**$23,656**	$20,847	13.5%

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

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

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

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

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

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

Property Taxes

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

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

Apartment Same Property NOI by Region

For the years ended December 31,

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

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

MHC Results

For the years ended December 31,

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

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

For the years ended December 31,

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

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

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

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

Commercial Results

For the years ended December 31,	Total Portfolio			Same Property		
	2022	2021	% Change	**2022**	2021	% Change
Property revenue	**$19,267**	$17,384	10.8%	**$13,479**	$12,724	5.9%
Property operating expenses	**8,400**	7,959	5.5%	**5,528**	5,354	3.2%
NOI	**$10,867**	$9,425	15.3%	**$7,951**	$7,370	7.9%

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

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

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

PART V

Other Income and Expenses and Net Income

Net Income and Comprehensive Income

For the years ended December 31,

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

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

Financing Costs

For the years ended December 31,

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

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

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

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

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

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

Administration Expenses

For the years ended December 31,

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

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

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

Fair Value Adjustments

For the years ended December 31,

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

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

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

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

Deferred Tax Expense

For the years ended December 31,			
	2022	2021	% Change
	$18,813	$42,393	(55.6)%

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

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

PART VI

Per Unit Calculations

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

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

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

Funds from Operations

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

For the years ended December 31,	**2022**	2021	% Change
Net income	**$122,532**	$285,527	(57.1)%
Fair value adjustment on unit-based compensation	**(2,234)**	1,869	(219.5)%
Fair value adjustment on Exchangeable Units	**(29,497)**	26,107	(213.0)%
Fair value adjustment on investment properties	**19,870**	(239,684)	108.3%
Non-controlling interest	**(16)**	(13)	23.1%
Internal commercial leasing costs	**315**	302	4.3%
Deferred tax expense	**18,813**	42,393	(55.6)%
Interest expense on Exchangeable Units	**2,790**	2,766	0.9%
Unrealized gain on derivative liability	**(88)**	(167)	47.3%
Depreciation on owner-occupied building	**96**	106	(9.4)%
Change in principal related to lease liabilities	**22**	29	(24.1)%
FFO	**$132,603**	$119,235	11.2%
FFO per unit – basic	**$1.11**	$1.07	3.7%
FFO per unit – diluted	**$1.11**	$1.07	3.7%
Weighted average number of units – basic (000s)	**119,511**	111,465	7.2%
Weighted average number of units – diluted (000s)	**119,678**	111,626	7.2%

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

Adjusted Funds from Operations

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

Details of Killam's total actual capital expenditures by category are included in the Capital Improvements section on page 64, and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 56 of this MD&A.

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

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

Maintenance Capex Reserve – Apartments

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

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

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

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

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

Maintenance Capex Reserve – MHCs and Commercial

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

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

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

For the years ended December 31,

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

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

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

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

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

Adjusted Cash Flow from Operations

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

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

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

For the years ended December 31,	**2022**	2021	% Change
Cash provided by operating activities	**$125,331**	$140,542	(10.8)%
Adjustments:			
Changes in non-cash working capital not indicative of sustainable cash flows	**8,372**	(13,894)	(160.3)%
Maintenance capital expenditures	**(20,318)**	(18,023)	12.7%
External commercial leasing costs	**(324)**	(224)	44.6%
Amortization of deferred financing costs	**(3,846)**	(3,784)	1.6%
Interest expense related to lease liability	**(22)**	(29)	(24.1)%
Non-controlling interest	**(16)**	(13)	23.1%
ACFO	**$109,177**	$104,575	4.4%
Distributions declared (1)	**84,722**	77,925	8.7%
Excess of ACFO over cash distributions	**$24,455**	$26,650	(8.2)%
ACFO payout ratio – diluted (2)	**78%**	75%	300 bps

(1) Includes distributions on Trust Units, Exchangeable Units and restricted Trust Units, as summarized on page 67.

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

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

Cash Provided by Operating Activities and Distributions Declared

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

For the years ended December 31,	**2022**	2021
Net income	**$122,532**	$285,527
Cash provided by operating activities	**$125,331**	$140,542
Total distributions declared	**$84,722**	$77,925
Excess of net income over total distributions declared	**$37,810**	$207,602
Excess of net income over net distributions paid (1)	**$63,101**	$233,506
Excess of cash provided by operating activities over total distributions declared	**$40,609**	$62,617

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

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

PART VII

Liquidity and Capital Resources

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

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

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

(ii) Killam currently has capacity of approximately $80.0 million of capital under its credit facilities and cash on hand and acquisition capacity of over $150.0 million.

(iii) Mortgage refinancings and construction loans are expected to be sufficient to fund value-enhancing capex, principal repayments and developments. Killam has $268.6 million of mortgage debt scheduled for refinancing in 2023, expected to lead to upfinancing opportunities of approximately $90.0 million.

(iv) Upcoming mortgage maturities are expected to be renewed through Killam's mortgage program.

(v) Killam has unencumbered assets of approximately $75.0 million, on which debt could be placed.

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

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

The table below outlines Killam's key debt metrics:

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

(1) Ratio calculated net of cash.

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

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

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

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

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 debt to asset ratio given the change in the noted input (cap-rate sensitivity). This analysis excludes the impact of any change in NOI growth.

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

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

Normalized Adjusted EBITDA

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

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

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

Interest and Debt Service Coverage

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

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

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

Mortgages and Other Loans

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

Refinancings

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

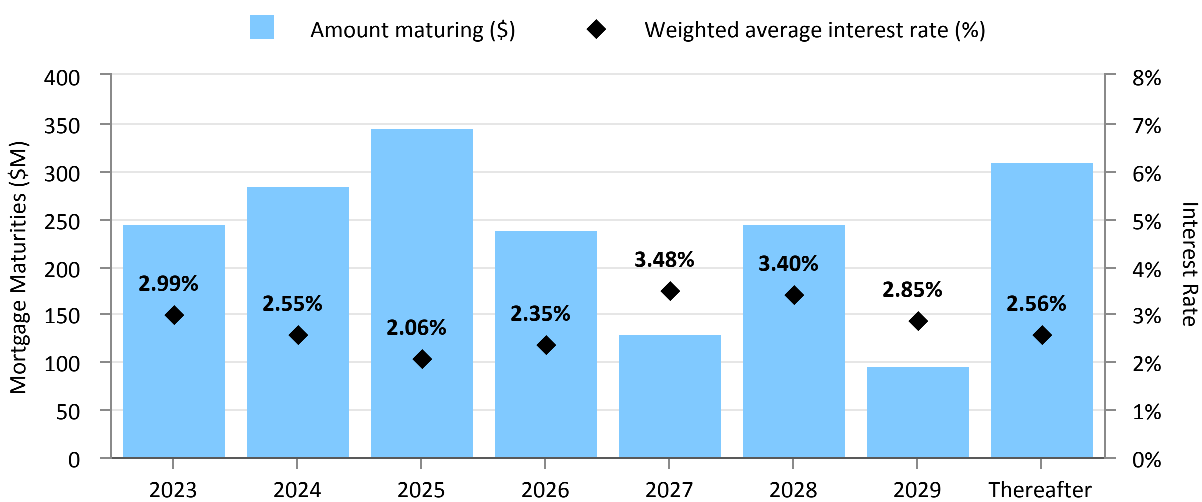
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$130,321	2.69%	$182,597	3.47%	8.2 years	$52,276
MHCs and Commercial	21,251	3.51%	30,429	5.12%	5.0 years	9,178
	$151,572	2.80%	$213,026	3.70%	7.8 years	$61,454

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

	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 %
2023	$244,568	2.99%	52.1%	$31,966	3.62%	$276,534	3.07%
2024	285,172	2.55%	73.0%	23,568	2.75%	308,740	2.56%
2025	345,393	2.06%	52.6%	20,804	2.61%	366,197	2.09%
2026	239,278	2.35%	82.4%	7,611	2.69%	246,889	2.36%
2027	130,452	3.48%	74.6%	33,080	5.12%	163,532	3.81%
Thereafter	651,289	2.92%	100.0%	3,993	3.31%	655,282	2.92%
	$1,896,152	2.68%	77.2%	$121,022	3.62%	$2,017,174	2.74%

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

Apartment Mortgage Maturities by Year



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

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

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

2023 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	36	$25,779	$239,349
MHCs and Commercial with debt maturing	11	4,118	29,249
	47	$29,897	$268,598

2024 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	48	$30,635	$267,020
MHCs and Commercial with debt maturing	5	3,862	22,150
	53	$34,497	$289,170

Future Contractual Debt Obligations

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

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

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

Construction Loans

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

Credit Facilities

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

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

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

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

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

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

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

Investment Properties

As at December 31,

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

Continuity of Investment Properties

As at December 31,

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

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

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

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

For the years ended December 31,

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

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

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

Fair Value Sensitivity

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

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

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

2022 Acquisitions – Investment Properties

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

(1) Purchase price does not include transaction costs.

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

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

Investment Properties Under Construction

As at December 31,

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

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

Land for Development

As at December 31,

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

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

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

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

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

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

Governor

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

Civic 66

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

The Carrick

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

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

Future Development Pipeline

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

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

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

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

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

Capital Improvements

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

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

For the year ended December 31,

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

Apartment Portfolio

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

For the year ended December 31,

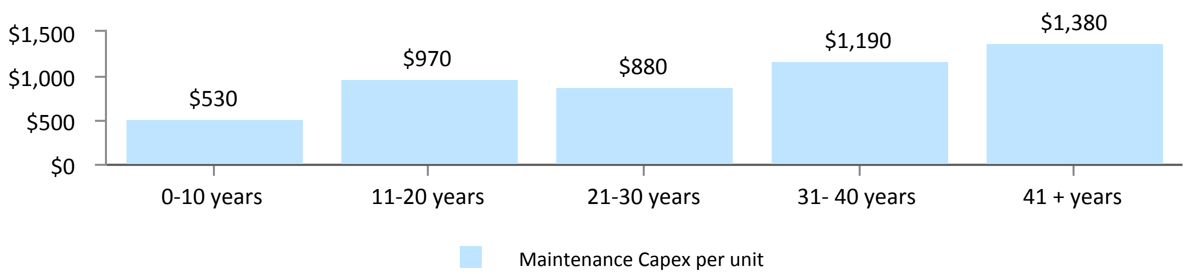
	2022	2021	% Change
Building improvements	**$44,249**	$27,899	58.6%
Unit renovations	**29,635**	27,784	6.7%
Appliances	**5,481**	4,482	22.3%
Energy	**8,513**	8,165	4.3%
Common area	**3,510**	2,381	47.4%
Total capital invested	**$91,388**	$70,711	29.2%
Average number of units outstanding (1)	**18,678**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

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

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

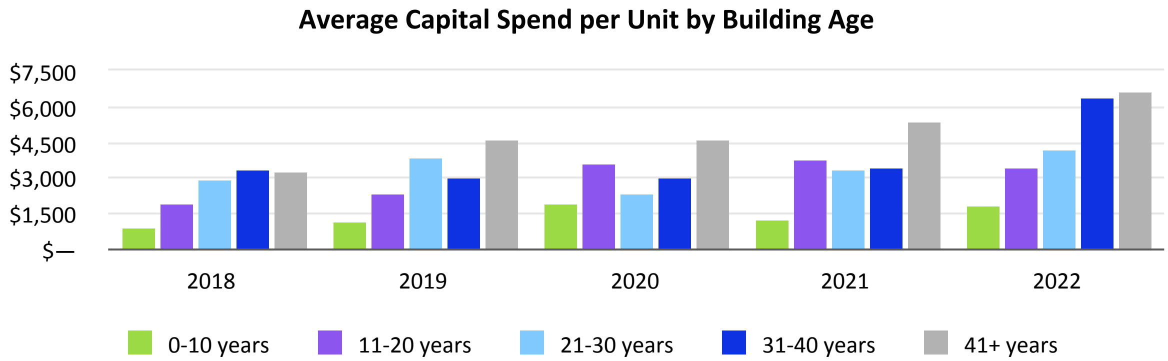
Maintenance capital requirements vary significantly by age of property. As the following chart illustrates, the approximate 2022 maintenance capex for properties built in the past 10 years was $530 per unit vs. $1,380 per unit for units that were 41+ years old.

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



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

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



Building Improvements

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

Unit Renovations and Repositionings

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

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

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

Energy

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

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

MHC Portfolio

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

For the year ended December 31,

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

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

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

Commercial Portfolio

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

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

Unitholders' Equity

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

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

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

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

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

Distribution Reinvestment Plan and Net Distributions Paid

For the years ended December 31,

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

Normal Course Issuer Bid

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

PART VIII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

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

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

Q4 Consolidated Results

For the three months ended December 31,

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

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

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

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

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

Q4 Same Property NOI
For the three months ended December 31,

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

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

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

Utility and fuel expenses were 11.4% higher for the three months ended December 31, 2022, as compared to the same period in 2021. This increase was driven by further increases in natural gas costs, which were up 36.7% in the fourth quarter compared to Q4-202, as a result of higher commodity costs. Oil costs were also up by 13.8% compared to Q4-2021, as a result of a 55.8% increase in commodity pricing quarter-over-quarter.

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

Q4-2022 Occupancy
Apartment Occupancy Analysis by Core Market (% of Residential Rent) [1]

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

(1) Occupancy as a percentage of residential rent is calculated as vacancy (in dollars) divided by gross potential residential rent (in dollars) for the period.
(2) Q4-2022 occupancy for Ottawa was impacted by two recently completed development projects undergoing initial lease-up.

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

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

Same Property Rental Increases – Tenant Renewals Versus Unit Turns

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

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

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

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

MHC Results

For the three months ended December 31,	Total Portfolio			Same Property		
	2022	2021	% Change	**2022**	2021	% Change
Property revenue	**$4,347**	$4,161	4.5%	**$4,291**	$4,154	3.3%
Property operating expenses						
General operating expenses	**1,200**	1,159	3.5%	**1,194**	1,179	1.3%
Utility and fuel expenses	**401**	513	(21.8)%	**386**	379	1.8%
Property taxes	**198**	190	4.2%	**195**	190	2.6%
Total operating expenses	**$1,799**	$1,862	(3.4)%	**$1,775**	$1,748	1.5%
NOI	**$2,548**	$2,299	10.8%	**$2,516**	$2,406	4.6%
Operating margin %	**58.6%**	55.3%	330 bps	**58.6%**	57.9%	70 bps

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

Commercial Results

For the three months ended December 31,	Total Portfolio			Same Property		
	2022	2021	% Change	**2022**	2021	% Change
Property revenue	**$4,992**	$4,689	6.5%	**$3,352**	$3,317	1.1%
Property operating expenses	**2,211**	2,046	8.1%	**1,444**	1,342	7.6%
NOI	**$2,781**	$2,643	5.2%	**$1,908**	$1,975	(3.4)%

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

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

Q4 FFO

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

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

Q4 AFFO

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

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

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

PART IX

Selected Consolidated Financial Information

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

Risk Management

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

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

Killam is exposed to other risks, as outlined below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Exchangeable Units

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

Taxation-Related Risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

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

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

Future Accounting Policy Changes

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

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

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

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

Disclosure Controls, Procedures and Internal Controls

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

Disclosure Controls and Procedures

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

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

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

Internal Controls over Financial Reporting

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

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

Related Party Transactions

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

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

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

Subsequent Events

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

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, 2022, 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 16, 2023

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, 2022 and 2021 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, 2022 and 2021, 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. These matters were 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 these matters. 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 Group'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 $4.8B which represents 99% of total assets at December 31, 2022. 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. Note 2(G) 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 Group'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.	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 Group, 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. • 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 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 Group'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

Halifax, Canada
February 16, 2023

Chartered Professional Accountants

Consolidated Statements of Financial Position

In thousands of Canadian dollars,

	Note	**December 31, 2022**	December 31, 2021
ASSETS			
Non-current assets			
Investment properties	[5]	**$4,812,801**	$4,540,877
Property and equipment	[8]	**7,879**	7,931
Other non-current assets	[9]	**4,318**	4,375
		$4,824,998	$4,553,183
Current assets			
Cash		**$9,150**	$6,484
Rent and other receivables	[10]	**9,580**	7,768
Residential inventory	[6]	**4,597**	212
Other current assets	[9]	**11,205**	10,860
		34,532	25,324
TOTAL ASSETS		**$4,859,530**	$4,578,507
EQUITY AND LIABILITIES			
Unitholders' equity	[17]	**$2,273,169**	$2,111,327
Non-controlling interest		**162**	142
Total Equity		**$2,273,331**	$2,111,469
Non-current liabilities			
Mortgages and loans payable	[11]	**$1,639,335**	$1,678,391
Lease liabilities	[12]	**9,627**	9,604
Exchangeable Units	[16]	**63,187**	94,461
Deferred income tax	[23]	**245,817**	227,004
Deferred unit-based compensation	[19]	**4,200**	6,376
Other non-current liabilities		**—**	20
		$1,962,166	$2,015,856
Current liabilities			
Mortgages and loans payable	[11]	**$340,107**	$236,943
Credit facilities	[13]	**121,014**	61,730
Construction loans	[14]	**94,972**	77,596
Accounts payable and accrued liabilities	[15]	**67,940**	74,913
		624,033	451,182
Total Liabilities		**$2,586,199**	$2,467,038
TOTAL EQUITY AND LIABILITIES		**$4,859,530**	$4,578,507
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	**2022**	2021
Property revenue	[20]	**$328,847**	$290,917
Property operating expenses			
Operating expenses		**(52,308)**	(47,482)
Utility and fuel expenses		**(30,106)**	(24,683)
Property taxes		**(39,521)**	(35,517)
		(121,935)	(107,682)
Net operating income		**$206,912**	$183,235
Other income	[21]	**1,797**	1,059
Financing costs	[22]	**(61,499)**	(51,521)
Depreciation		**(573)**	(573)
Administration		**(17,153)**	(15,988)
Fair value adjustment on unit-based compensation	[19]	**2,234**	(1,869)
Fair value adjustment on Exchangeable Units	[16]	**29,497**	(26,107)
Fair value adjustment on investment properties	[5]	**(19,870)**	239,684
Income before income taxes		**141,345**	327,920
Deferred tax expense	[23]	**(18,813)**	(42,393)
Net income		**$122,532**	$285,527
Comprehensive income		**$122,532**	$285,527
Net income attributable to:			
Unitholders		**122,516**	285,514
Non-controlling interest		**16**	13
		$122,532	$285,527
Comprehensive income attributable to:			
Unitholders		**122,516**	285,514
Non-controlling interest		**16**	13
		$122,532	$285,527

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars,

Year ended December 31, 2022	Trust Units	Contributed Surplus	Retained Earnings	Non-controlling Interest	Total Equity
As at January 1, 2022	$1,230,307	$795	$880,225	$142	$2,111,469
Units issued on exchange of Exchangeable Units	1,777	—	—	—	1,777
Distribution reinvestment plan	25,000	—	—	—	25,000
Deferred Unit-based compensation	752	—	—	—	752
Issued for cash	93,471	—	—	—	93,471
Net income	—	—	122,516	16	122,532
Distributions on non-controlling interest	—	—	—	4	4
Distributions declared and paid	—	—	(74,805)	—	(74,805)
Distributions payable	—	—	(6,869)	—	(6,869)
As at December 31, 2022	$1,351,307	$795	$921,067	$162	$2,273,331

Year ended December 31, 2021	Trust Units	Contributed Surplus	Retained Earnings	Non-controlling Interest	Total Equity
As at January 1, 2021	$1,097,713	$795	$669,621	$129	$1,768,258
Units issued on exchange of Exchangeable Units	1,823	—	—	—	1,823
Distribution reinvestment plan	25,465	—	—	—	25,465
Deferred Unit-based compensation	945	—	—	—	945
Issued for cash	104,361	—	—	—	104,361
Net income	—	—	285,514	13	285,527
Distributions declared and paid	—	—	(68,406)	—	(68,406)
Distributions payable	—	—	(6,504)	—	(6,504)
At December 31, 2021	$1,230,307	$795	$880,225	$142	$2,111,469

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars,

	Note	Year ended December 31, 2022	2021
OPERATING ACTIVITIES			
Net income		**$122,532**	$285,527
Add (deduct) items not affecting cash			
Fair value adjustments		**(11,861)**	(211,708)
Depreciation		**573**	573
Amortization of deferred financing		**3,846**	3,784
Non-cash compensation expense		**2,191**	2,078
Deferred income taxes		**18,813**	42,393
Amortization of fair value adjustments on assumed mortgages		**171**	65
Interest expense on Exchangeable Units		**2,790**	2,766
Unrealized gain on derivative liability		**(88)**	(167)
Straight-line rent		**(164)**	(306)
Net impact of lease liabilities		**62**	68
Net change in non-cash operating activities	[25]	**(13,534)**	15,469
Cash provided by operating activities		**$125,331**	$140,542
FINANCING ACTIVITIES			
Deferred financing costs paid		**(5,934)**	(4,122)
Net proceeds on issuance of Units		**93,471**	104,361
Cash paid on redemption of restricted Units		**(1,269)**	(1,566)
Mortgage financing		**283,027**	381,133
Mortgages repaid		**(163,461)**	(101,866)
Mortgage principal repayments		**(69,033)**	(62,246)
Credit facility proceeds		**59,284**	54,701
Proceeds from construction loans		**96,058**	54,140
Construction loan repayments		**(78,682)**	(17,889)
Distributions paid to non-controlling interest		**16**	—
Distributions to Unitholders		**(59,094)**	(51,455)
Cash provided by financing activities		**$154,383**	$355,191
INVESTING ACTIVITIES			
Restricted cash		**62**	357
Acquisition of investment properties, net of debt assumed		**(103,338)**	(338,068)
Repayment (advance) on loan receivable		**225**	(4,375)
Development of investment properties		**(80,077)**	(77,962)
Capital expenditures		**(93,920)**	(76,812)
Cash used in investing activities		**($277,048)**	($496,860)
Net increase (decrease) in cash		**2,666**	(1,127)
Cash, beginning of year		**6,484**	7,611
Cash, end of year		**$9,150**	$6,484

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, 2022. 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") applicable to the preparation of consolidated annual financial statements. These policies have been consistently applied to all years presented, unless stated otherwise.

The consolidated financial statements of the Trust for the year ended December 31, 2022 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on February 16, 2023.

(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 otherwise noted.

The consolidated financial statements have been prepared considering the impact of the current inflationary environment, higher interest rates and potential for government intervention and how increased uncertainty could impact the valuation of investment properties. Killam has used the best information available as at December 31, 2022, 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 to include those underlying the valuation of investment properties and the estimated credit losses on accounts receivable.

(C) Basis of Consolidation

(i) Subsidiaries

The consolidated financial statements comprise the assets and liabilities of all subsidiaries and the results of all subsidiaries for the financial year. Killam and its subsidiaries are collectively referred to as Killam in these consolidated 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 (except as noted)

2. Significant Accounting Policies (continued)

Killam's investments in significant 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 Apartment Subsidiary II Limited Partnership	100%
Killam Investments Inc.	100%
Killam Investments (PEI) Inc.	100%
Killam Properties Apartments Trust	100%
Killam Properties MHC Trust	100%

(ii) Joint arrangements

Killam has interests in and joint control in six properties, one development project and land for future development. Killam has assessed the nature of its joint arrangements 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.

(D) Property Asset Acquisitions

At the time of acquisition of a property or a portfolio of investment properties, Killam evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, *Business Combinations* (“IFRS 3”) is only applicable if it is considered that a business has been acquired. A business according to IFRS 3, is 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 accounted for as asset acquisitions.

(E) Revenue Recognition

(i) Rental income

Revenue from rental properties represents the majority of Killam’s revenue and includes rents from tenants under leases, parking income, laundry income and other miscellaneous income paid by the tenants under the terms of their existing leases. Rental revenue from investment properties is recognized on a straight-line basis over the lease term. Rental payments are due from tenants at the beginning of the month. The operating leases entered into with tenants create a legally enforceable right to control the use of an identified asset by the tenant for a period of time and also require Killam to provide additional services. IFRS 16, Leases (“IFRS 16”), provides guidance on “lease components” such as base rent, realty tax and insurance recoveries, which therefore are outside of the scope of IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). Property management and ancillary income (such as utilities, parking and laundry) are considered non-lease components and are within the scope of IFRS 15. The performance obligation for the property management and ancillary services is satisfied over time. 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.

2. Significant Accounting Policies (continued)

(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 recognized on a straight-line basis from the date the lease termination is agreed to until the effective date of the lease termination.

(F) Tenant Inducements

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

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

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

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

Properties under development are also adjusted 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.

2. Significant Accounting Policies (continued)

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.

(H) Assets Held for Sale
Assets held for sale include assets that meet the held for sale criteria in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. These assets have carrying amounts that will be recovered principally through a sale and are available for immediate sale in their present condition. 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.

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

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

(J) Residential Inventory
Residential inventory consists of assets acquired or developed that Killam does not intend to use for rental income purposes and plans to sell in the ordinary course of business. Killam expects to earn a return on such assets through a combination of property operating income earned during the holding period and sale proceeds. Inventory represents townhouses and manufactured homes available for sale. Residential inventory is valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business based on market prices at the reporting date less costs to complete and the estimated costs of sale.

(K) Consolidated Statements of Cash Flows
Cash consists of cash on hand and bank account balances excluding restricted cash.

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

2. Significant Accounting Policies (continued)

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.

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

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

Type	Classification	Measurement
Rent, loans and other receivables	Financial assets	Amortized cost
Accounts payable, accrued liabilities	Financial liabilities	Amortized cost
Mortgages, loans payable and construction loans	Financial liabilities	Amortized cost
Credit facility	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.

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.

2. Significant Accounting Policies (continued)

Exchangeable Units
The Exchangeable Units are considered a financial liability as there is a contractual obligation for the Trust to deliver Trust Units upon exchange of the Exchangeable Units. The distributions on the Exchangeable Units are recognized as financing costs in the consolidated statements of income and comprehensive income. The distributions payable as at the reporting date are reported under other current liabilities on the consolidated statements of financial position. The Exchangeable Units are measured at each reporting date at fair value, as they are considered to be puttable instruments under IAS 32, Financial Instruments: Presentation ("IAS 32"). Fair value 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. 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.

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.

2. Significant Accounting Policies (continued)

(N) Hedging Relationships

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

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

Cash flow hedges

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

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

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

(O) Borrowing Costs and Interest on Mortgages Payable

Financing costs include mortgage interest, which is expensed at the effective interest rate, and transaction costs incurred in connection with the revolving credit facilities, which are capitalized and presented as other non-current assets and amortized over the term of the facility to which they relate.

(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.

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.

2. Significant Accounting Policies (continued)

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

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

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

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

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

(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.

(V) Reportable Operating Segments
Reportable operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. Killam has determined that its chief operating decision-maker is comprised of members of executive management.

3. Critical Accounting Judgments, Estimates and Assumptions

Critical Judgments in Applying Accounting Policies

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates, assumptions and judgments that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the consolidated financial statements and accompanying notes. Areas of such estimation include, but are not limited to: valuation of investment properties, remeasurement at fair value of financial instruments, valuation of accounts receivable, capitalization of costs, accounting accruals, the amortization of certain assets, accounting for deferred income taxes and determining whether an acquisition is a business combination or an asset acquisition. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions and conditions.

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

(i) Income taxes

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

(ii) Investment property and internal capital program

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

(iii) Financial instruments

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

(iv) Basis of consolidation

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

(v) Revenue recognition

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

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.

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

(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.

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

(iii) Deferred taxes

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

IAS 7 Statement of Cash Flows - Demand Deposits with Restrictions on Use
In April 2022, the IFRS Interpretations Committee (the Committee) reached a conclusion on whether an entity includes a demand deposit as a component on cash and cash equivalents in the statement of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party. The Committee concluded that restrictions on the use of a demand deposit arising from a contract with a third party does not result in the deposit no longer being cash, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7. The conclusion is applied in Killam's statement of financial position as at December 31, 2022, and the comparative period and the statement of cash flows for the year ended December 31, 2022 and 2021, with a change in presentation of cash and cash equivalents and other current assets.

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

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

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

5. Investment Properties

As at December 31, 2022

	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
Balance, January 1, 2022	**$3,897,354**	**$231,370**	**$155,306**	**$201,319**	**$55,528**	**$4,540,877**
Fair value adjustment on investment properties	**(20,050)**	**(16,570)**	**(2,452)**	**19,801**	**—**	**(19,271)**
Acquisitions	**109,840**	**2,577**	**3,960**	**—**	**4,000**	**120,377**
Transfer from IPUC	**170,337**	**—**	**—**	**(170,337)**	**—**	**—**
Capital expenditures	**91,388**	**6,242**	**7,096**	**63,217**	**2,536**	**170,479**
Transfer from land for development	**1,394**	**—**	**—**	**21,710**	**(23,104)**	**—**
Transfer to inventory	**—**	**—**	**—**	**(3,073)**	**—**	**(3,073)**
Interest capitalized on IPUC and land for development	**—**	**—**	**—**	**2,559**	**853**	**3,412**
Balance, December 31, 2022	**$4,250,263**	**$223,619**	**$163,910**	**$135,196**	**$39,813**	**$4,812,801**

As at December 31, 2021

	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
Balance, January 1, 2021	$3,218,369	$212,699	$139,130	$128,100	$43,620	$3,741,918
Fair value adjustment on investment properties	210,829	12,844	2,937	11,097	—	237,707
Acquisitions	382,129	404	10,495	—	13,315	406,343
Transfer from IPUC	17,254	—	—	(17,254)	—	—
Capital expenditures	68,773	5,423	2,744	73,005	1,905	151,850
Transfer from land for development	—	—	—	4,132	(4,132)	—
Interest capitalized on IPUC and land for development	—	—	—	$2,239	$820	$3,059
Balance, December 31, 2021	$3,897,354	$231,370	$155,306	$201,319	$55,528	$4,540,877

During the year ended December 31, 2022, Killam acquired the following properties:

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

(1) Purchase price does not include transaction costs.
(2) Property has in-place income acquired for future development potential located adjacent to Killam's Northfield Gardens complex in Waterloo.
(3) Property includes an existing 84-unit apartment building and an adjacent parcel of land for future development potential.

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

5. Investment Properties (continued)

During the year ended December 31, 2021, Killam acquired the following properties:

Property	Location	Acquisition Date	Ownership Interest	Property Type	Purchase Price [1]
Nolan Hill [2]	Calgary, AB	21-Jan-21	100%	Apartment	**$49,500**
Sherwood Crossing Land	Charlottetown, PE	29-Jan-21	100%	Development Land	**3,400**
1313-1321 Hollis Street [3]	Halifax, NS	29-Jan-21	100%	Development Land	**3,000**
54 Assomption Blvd	Moncton, NB	01-Feb-21	100%	Apartment	**5,600**
Southport [3]	Stratford, PE	01-Feb-21	100%	Development Land	**3,800**
5735 College Street	Halifax, NS	07-May-21	100%	Development Land	**1,300**
Charlottetown Mall [4]	Charlottetown, PE	01-Jun-21	25%	Commercial	**10,100**
38 Pasadena Crescent	St. John's, NL	08-Jun-21	100%	Apartment	**4,200**
KWC Portfolio [5]	Kitchener/Waterloo, ON	30-Jun-21	100%	Apartment	**190,500**
131 Queensway Drive [6]	Moncton, NB	15-Sept-21	100%	MHC Land	**385**
140 Dale Drive	Stratford, PE	06-Oct-21	100%	Apartment	**15,300**
Emma Place	Moncton, NB	18-Oct-21	100%	Apartment	**31,800**
Heritage Valley	Edmonton, AB	28-Oct-21	100%	Apartment	**28,900**
160 Dale Drive[3]	Stratford, PE	29-Oct-21	100%	Development Land	**1,500**
Nautical Suites	Edmonton, AB	9-Nov-21	100%	Apartment	**42,300**
1350 Hollis Street [3]	Halifax, NS	1-Dec-21	100%	Apartment	**1,300**
155 Kedgwick Drive	Moncton, NB	20-Dec-21	100%	Apartment	**$6,500**
Total Acquisitions					**$399,385**

(1) Purchase price does not include transaction costs.

(2) Killam had a 10% interest in the Nolan Hill development of $4.8 million and acquired the remaining 90% interest in January 2021, based on the purchase price of $55.0 million for a 100% interest.

(3) Properties with in-place income acquired for future development potential.

(4) Killam acquired an additional 25% interest in the property, with its ownership interest now totalling 75%.

(5) The portfolio of 785 units consists of 297 units located in Kitchener, ON, and 488 units in Waterloo, ON.

(6) Killam acquired a parcel of land adjacent an existing property.

During the year ended December 31, 2022, Killam capitalized salaries of $6.2 million (year ended December 31, 2021 - $4.3 million), as part of its project improvement, suite renovation and development programs. For the year ended December 31, 2022, 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 3.01% (December 31, 2021 - 2.52%). 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 $4.6 billion as at December 31, 2022 (December 31, 2021 - $4.3 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 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 22 external property appraisals throughout the year. The internal valuation team also verifies all major inputs used by the external valuators in preparing the valuation report, compares the fair value against the fair value determined in internal models, and holds discussions with the external valuators.

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 SNOI, 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 current and 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 (except 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 $190.5 million (December 31, 2021 - 3.00% to 7.00% and $172.4 million), resulting in an overall weighted average effective cap-rate of 4.48% (December 31, 2021 - 4.41%). The stabilized occupancy rates used in the calculation of SNOI were in the range of 96.0% to 99.0% (December 31, 2021 - 94.0% to 99.0%). Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.25% to 6.50%, applied to a SNOI of $12.6 million (December 31, 2021 - 5.00% to 6.50% and $12.5 million), resulting in an overall weighted average effective cap-rate of 5.78% (December 31, 2021 - 5.59%). The stabilized occupancy rate used in the calculation of SNOI was 98.1% (December 31, 2021 - 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 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. The weighted average discount rate applied in the period was 7.67% (December 31, 2021 - 7.48%).

Killam reviewed its valuation of investment properties in light of higher inflation and increased borrowing costs as at December 31, 2022. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19, current inflationary pressures 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, expense growth 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, higher inflation and increased borrowing costs.

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:

	December 31, 2022			December 31, 2021		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**3.25%**	**7.00%**	**4.48%**	3.00%	7.00%	4.41%
MHCs	**5.25%**	**6.50%**	**5.78%**	5.00%	6.50%	5.59%

Fair Value Sensitivity

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

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

[1] Includes Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method, and commercial assets valued using a discounted cash flow approach. The sensitivity for commercial assets is calculated using an implied capitalization rate based on the stabilized NOI of the properties.

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

6. Residential Inventory

Residential inventory consists of assets that are for sale in ordinary course of business and MHC home inventory.

	Year ended December 31, 2022	Year ended December 31, 2021
Balance, beginning of period	**$212**	$9
Net change in MHC home inventory	**(60)**	203
Transferred from IPUC	**3,073**	—
Capital expenditures	**5,780**	—
Sale of inventory under construction	**(4,408)**	—
Balance, end of period	**$4,597**	$212

As at December 31, 2022, residential inventory consists of the development of townhouses in Charlottetown, PE, and MHC home inventory intended for resale. In December 2022, Killam sold a 50% interest in the development of the townhouses in Charlottetown, PE.

7. Joint Operations and Investments in Joint Venture

Killam has interests in six properties, one development project 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, 2022, the fair value of the investment properties subject to joint control was $364.8 million (December 31, 2021 - $371.5 million).

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

8. Property and Equipment

As at	**Cost**	**Accumulated Depreciation**	Cost	Accumulated Depreciation
	December 31, 2022		December 31, 2021	
Land	**$270**	**$—**	$270	$—
Building	**2,243**	**598**	2,245	564
Heavy equipment	**524**	**227**	498	203
Vehicles	**3,218**	**1,462**	2,901	1,283
Furniture, fixtures and office equipment	**7,012**	**6,086**	6,836	5,887
Leasehold improvements	**3,971**	**986**	3,971	853
	17,238	**9,359**	16,721	8,790
Less accumulated depreciation	**(9,359)**		(8,790)	
	$7,879		$7,931	

9. Other Current Assets and Non-Current Assets

Cash and Cash Equivalents

As at December 31, 2022, Killam had $9.2 million (December 31, 2021 - $6.5 million) in cash and cash equivalents, consisting of $2.5 million in operating cash and $6.7 million in security deposits (December 31, 2021 - $0.5 million and $6.0 million).

Other Current Assets

As at	**December 31, 2022**	December 31, 2021
Restricted cash	**$1,377**	$1,437
Deposits	**1,548**	1,575
Prepaid expenses	**8,280**	7,848
	$11,205	$10,860

Restricted cash consists of property tax reserves.

Other Non-Current Assets

As at December 31, 2022, Killam had a $0.1 million derivative asset (December 31, 2021 - $0.02 million derivative liability) and a loan receivable of $4.3 million (December 31, 2021 - $4.4 million) from its 25% joint owner of Royalty Crossing. The loan receivable bears interest at 6.5% to be paid monthly and full repayment of the loan is due within 36 months from the initial advance in June 2021.

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

10. Rent and Other Receivables

As at	**December 31, 2022**	December 31, 2021
Rent receivable	**$1,457**	$809
Other receivables	**8,123**	6,959
	$9,580	$7,768

Included in other receivables are laundry revenue, insurance receivables and other non-rental income. The majority of rent receivable is less than 90 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.

11. Mortgages and Loans Payable

As at	**December 31, 2022**		December 31, 2021	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**2.74%**	**$1,976,842**	2.58%	$1,907,064
Variable rate	**6.25%**	**2,600**	2.37%	8,270
Total		**$1,979,442**		$1,915,334
Current		**340,107**		236,943
Non-current		**1,639,335**		1,678,391
		$1,979,442		$1,915,334

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

As at December 31, 2022, unamortized deferred financing costs of $39.1 million (December 31, 2021 - $37.0 million) and mark-to-market adjustments on mortgages assumed on acquisitions of $1.2 million (December 31, 2021 - $0.8 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, 2022, are as follows:

	Principal Amount	**% of Total Principal**
2023	340,107	16.8%
2024	345,433	17.1%
2025	372,184	18.4%
2026	239,442	11.9%
2027	166,902	8.3%
Subsequent to 2027	555,706	27.5%
	$2,019,774	100.0%
Unamortized deferred financing costs	($39,115)	
Unamortized mark-to-market adjustments	($1,217)	
	$1,979,442	

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

12. Lease Liabilities

	2022	2021
Balance, beginning of year	**$9,604**	$9,573
Net change in lease liabilities	**23**	31
Balance, end of year	**$9,627**	$9,604

As at December 31, 2022, the right-of-use assets and lease liabilities are $9.6 million (December 31, 2021 - $9.6 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, 2022, were $0.4 million (December 31, 2021 - $0.4 million).

13. Credit Facilities

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

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

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

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

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

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

14. Construction Loans

As at December 31, 2022, Killam had access to six variable rate non-revolving demand construction loans for the purpose of financing development projects, totalling $152.8 million. As at December 31, 2022, $95.0 million was drawn on the construction loans (December 31, 2021 - $77.6 million). Payments are made monthly on an interest-only basis. The weighted-average contractual interest rate on amounts outstanding at December 31, 2022, was 5.99% (December 31, 2021 - 2.01%). Once construction is complete and rental targets achieved, construction financing is expected to be replaced with permanent mortgage financing.

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

15. Accounts Payable and Accrued Liabilities

As at	**December 31, 2022**	December 31, 2021
Accounts payable and other accrued liabilities	**$44,004**	$53,109
Distributions payable	**7,096**	6,737
Mortgage interest payable	**4,250**	3,873
Security deposits	**12,590**	11,194
	$67,940	$74,913

16. Exchangeable Units

	2022		2021	
	Number of Exchangeable Units	**Value**	**Number of Exchangeable Units**	**Value**
Balance, beginning of year	**4,004,270**	**$94,461**	4,101,520	$70,177
Exchangeable Units exchanged for Trust Units	**(106,250)**	**(1,777)**	(97,250)	(1,823)
Fair value adjustment	**—**	**(29,497)**	—	26,107
Balance, end of year	**3,898,020**	**$63,187**	4,004,270	$94,461

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, 2022, no unitholders redeemed Units.

The Units issued and outstanding are as follows:

	Number of Trust Units	**Value**
Balance, December 31, 2021	110,557,466	$1,230,307
Distribution Reinvestment Plan	1,360,631	25,000
Restricted Trust Units redeemed	61,205	752
Units issued on exchange of Exchangeable Units	106,250	1,777
Units issued for cash	4,715,000	93,471
Balance, December 31, 2022	**116,800,552**	**$1,351,307**

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

17. Unitholders' Equity (continued)

Units issued for cash

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
Bought-deal (February 4, 2022)	$20.80	$85,280	$4,080	$81,200	4,100,000
Over-allotment (February 4, 2022)	$20.80	12,792	521	12,271	615,000
Total		$98,072	$4,601	$93,471	4,715,000

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.

Normal Course Issuer Bid

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

18. Distributions

Killam paid distributions to its unitholders during 2022 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, 2022, the distributions declared related to the Trust Units were $81.7 million (year ended December 31, 2021 - $74.9 million). For the year ended December 31, 2022, distributions declared related to the Exchangeable Units were $2.8 million (year ended December 31, 2021 - $2.8 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.

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, 2022, is $4.2 million, which includes $1.5 million related to RTUs subject to performance conditions (December 31, 2021 - $6.4 million and $2.6 million). For the year ended December 31, 2022, compensation expense of $2.2 million (year ended December 31, 2021 - $2.1 million) has been recognized in respect of the RTUs.

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

19. Deferred Unit-based Compensation (continued)

The details of the RTUs issued are shown below:

	2022		2021	
For the years ended December 31,	**Number of RTUs**	**Weighted Average Issue Price**	Number of RTUs	Weighted Average Issue Price
Outstanding, beginning of period	**359,172**	**$18.10**	351,734	$16.93
Granted	**133,652**	**20.91**	143,054	18.14
Redeemed	**(127,867)**	**17.10**	(148,016)	13.09
Forfeited	**(12,502)**	**19.88**	—	—
Additional Restricted Trust Unit distributions	**14,030**	**18.46**	12,400	19.92
Outstanding, end of period	**366,485**	**$19.44**	359,172	$18.10

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,	
	2022	2021
Rental revenue [1]	**$240,058**	$212,369
Property expense recoveries	**75,635**	66,911
Ancillary revenue	**13,154**	11,637
	$328,847	$290,917

[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,	
	2022	2021
Management and leasing fee revenue	**1,199**	701
Interest revenue	**356**	237
Home sale revenue	**242**	121
	$1,797	$1,059

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

22. Financing Costs

	For the years ended December 31,	
	2022	2021
Mortgage, loan and construction loan interest	**$54,077**	$46,683
Interest on credit facilities	**3,774**	1,063
Interest on Exchangeable Units	**2,790**	2,766
Amortization of deferred financing costs	**3,846**	3,784
Amortization of fair value adjustments on assumed debt	**171**	65
Unrealized gain on derivative liability	**(88)**	(167)
Interest on lease liabilities	**391**	386
Capitalized interest	**(3,462)**	(3,059)
	$61,499	$51,521

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

23. Deferred Income Tax

Trusts that satisfy the REIT Exemption are excluded from the specified investment flow-through ("SIFT") definition and therefore will not be subject to taxation under the SIFT Rules. Effective December 31, 2021, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at December 31, 2022, 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, 2022, the deferred tax expense relates to the corporate subsidiary entity of the REIT.

As at December 31,	2021	Recognized in consolidated statement of income and comprehensive income	**2022**
Deferred tax liabilities (assets) related to:			
Real estate properties	$235,765	$18,947	**$254,712**
Loss carryforwards	(17,267)	1,092	**(16,175)**
Unrealized capital gains	3,636	(1,909)	**1,727**
Other	4,870	683	**5,553**
Net deferred tax liabilities	$227,004	$18,813	**$245,817**

As at December 31,	2020	Recognized in consolidated statement of income and comprehensive income	2021
Deferred tax liabilities (assets) related to:			
Real estate properties	$191,953	$43,812	**$235,765**
Loss carryforwards	(15,207)	(2,060)	**(17,267)**
Unrealized capital gains	3,743	(107)	**3,636**
Other	4,122	748	**4,870**
Net deferred tax liabilities	$184,611	$42,393	**$227,004**

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

For the years ended December 31,	**2022**	2021
Income before income taxes	**$141,345**	$327,920
Statutory tax rate	**28.3%**	28.3%
Income tax expense at statutory rates	**39,987**	92,933
Amounts not subject to tax	**(38,493)**	(91,409)
Income taxed at a lower amount	**(1,727)**	(3,636)
Effect of provincial tax rate changes	**(480)**	(65)
Other	**(442)**	21
Change to tax basis in excess of book basis	**19,968**	44,549
Total tax expense	**$18,813**	$42,393

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

24. Segmented Information

For investment properties, discrete financial information is provided on a property-by-property basis to members of executive management, which collectively comprise the chief operating decision maker ("CODM"). The individual properties are aggregated into segments with similar economic characteristics such as the nature of the property, vacancy rates, long-term growth rates and other characteristics. Management considers that this is best achieved by aggregating into apartments, MHCs and 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 eight 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. 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, 2022	**Apartments**	**MHCs**	**Commercial**	**Total**
Property revenue	**$289,790**	**$19,790**	**$19,267**	**$328,847**
Property operating expenses	**(106,365)**	**(7,170)**	**(8,400)**	**(121,935)**
Net operating income	**$183,425**	**$12,620**	**$10,867**	**$206,912**

Year ended December 31, 2021	Apartments	MHCs	Commercial	Total
Property revenue	$254,955	$18,578	$17,384	$290,917
Property operating expenses	(92,899)	(6,824)	(7,959)	(107,682)
Net operating income	$162,056	$11,754	$9,425	$183,235

As at December 31, 2022	**Apartments**	**MHCs**	**Commercial**	**Total**
Total investment properties (1)	**$4,425,272**	**$223,619**	**$163,910**	**$4,812,801**
Mortgages payable/construction loans	**$1,947,387**	**$90,598**	**$36,429**	**$2,074,414**

As at December 31, 2021	Apartments	MHCs	Commercial	Total
Total investment properties (1)	$4,154,201	$231,370	$155,306	$4,540,877
Mortgages payable/construction loans	$1,872,976	$83,013	$36,941	$1,992,930

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

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

25. Supplemental Cash Flow Information

	For the years ended December 31,	
	2022	2021
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$54,647**	$47,212
Interest paid on credit facilities	**3,774**	1,063
	$58,421	$48,275
Net change in non-cash operating assets and liabilities		
Rent and other receivables	**($1,812)**	($1,207)
Other current assets	**(363)**	669
Accounts payable and other liabilities	**(6,974)**	16,007
	($13,534)	$15,469

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. For certain of the Trust's financial instruments the carrying value represents fair value due to the short term nature including, loan receivable, construction loans and credit facilities, and as such these items are not included in the table below. 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.

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

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

The significant financial instruments and their carrying values as at December 31, 2022, and December 31, 2021, are as follows:

As at	**December 31, 2022**		December 31, 2021	
Classification	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets carried at FVTPL:				
Derivative asset (1)	**$68**	**$68**	—	—
Financial liabilities carried at amortized cost:				
Mortgages and loans payable (2)	**$1,979,442**	**$1,926,902**	$1,915,334	$1,964,015
Financial liabilities carried at FVTPL:				
Exchangeable Units	**$63,187**	**$63,187**	$94,461	$94,461
Derivative liability (1)	—	—	$20	$20
Deferred unit-based compensation	**$4,200**	**$4,200**	$6,376	$6,376

(1) The $0.07 million derivative asset is included in other non-current assets within the consolidated statements of financial position (December 31, 2021 - $0.2 million derivative liability included in other non-current liabilities).
(2) Mortgages and loans payable does not include construction loans and credit facilities, the carrying value of these line items represents fair value.

The interest rates used to discount the estimated cash flows, when applicable, are based on the five-year government yield curve as at December 31, 2022, which is in-line with Killam's weighted average years to maturity of 3.8 years, plus an adequate credit spread, and were as follows:

As at	**December 31, 2022**	December 31, 2021
Mortgages - Apartments	**4.41%**	2.40%
Mortgages - MHCs	**5.41%**	3.00%

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, 2022**			December 31, 2021		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets						
Investment properties	—	—	**$4,812,801**	—	—	$4,540,877
Derivative asset (1)	—	**$68**	—	—	—	—
Liabilities						
Exchangeable Units	—	**$63,187**	—	—	$94,461	—
Derivative liability (1)	—	—	—	—	$20	—
Deferred unit-based compensation	—	**$3,459**	**$741**	—	$4,859	$1,517

(1) The $0.07 million derivative asset is included in other non-current assets within the condensed consolidated interim statements of financial position (December 31, 2021 - $0.02 million derivative liability included in other non-current liabilities).

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, 2022.

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

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

Risk Management

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

(i) Interest Rate Risk

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

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

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

(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, receivable 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, 2022 or 2021.

(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 and commercial assets do not qualify for CMHC insured debt; however, these assets 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, 2022, Killam refinanced $130.3 million of maturing apartment mortgages with new mortgages totaling $182.6 million, generating net proceeds of $52.3 million. In addition, during the year ended December 31, 2022, Killam refinanced $21.3 million of maturing MHC and commercial mortgages with new mortgages totaling $30.4 million, generating net proceeds of $9.2 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 (1)	Credit facilities	Total
2023	340,107	94,972	9,014	444,093
2024	345,433	—	112,000	457,433
2025	372,184	—	—	372,184
2026	239,442	—	—	239,442
2027	166,902	—	—	166,902
Thereafter	555,706	—	—	555,706
	$2,019,774	$94,972	$121,014	$2,235,760

(1) Construction loans are demand loans, but expected to be repaid once construction is complete and rental targets achieved. Once these targets are achieved, each construction loan will be repaid in full and is expected to be replaced with conventional mortgages.

Dollar amounts in thousands of Canadian dollars (except 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 as a percentage of total assets ratio. Killam's strategy, as outlined in the operating policies of its DOT, is for its overall indebtedness not to exceed 70% of total assets. The calculation of total debt as a percentage of total assets is summarized as follows:

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

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

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)%	$5,393,122	$5,430,224	40.4%	(480)
(0.25)%	$5,091,436	$5,128,538	42.8%	(250)
—%	$4,812,801	$4,849,903	45.3%	—
0.25%	$4,582,293	$4,619,395	47.5%	230
0.50%	$4,365,481	$4,402,583	49.9%	460

[(1)] The cap-rate sensitivity is calculating the impact on Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method and Killam's commercial portfolio which is valued using the discounted cash flow method. The sensitivity for commercial assets is calculated using an implied capitalization rate based on the stabilized NOI of the properties.

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 purchased a 10% interest of a planned four-phase 829-unit development project in Calgary, Alberta in 2018. Phase 1 was completed in January 2021 and Killam purchased the remaining 90% interest in the 233 unit property on January 21, 2021. Construction of Phase II commenced in December 2021 and Killam has a $65.0 million commitment in place to purchase the remaining 90% interest following completion of construction and the achievement of certain conditions which are expected to occur in late 2023.

Killam entered into a supply contract for natural gas to hedge its own usage, which is summarized below:

Area	**Utility**	**Usage Coverage**	**Term**	**Cost**
Ontario	Gas	25%	December 1, 2021 - October 31, 2023	$4.70/GJ
Alberta	Gas	25%	December 1, 2021 - December 31, 2023	$3.81—$4.77/GJ
Alberta	Electricity	25%—50%	January 1, 2023 - December 31, 2024	$123.86/MWh

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

29. Financial Guarantees

Killam is the guarantor on a joint and several basis for mortgage debt held through its joint operations. As at December 31, 2022, the maximum potential obligation resulting from these guarantees is $71.2 million, related to long term mortgage financing (December 31, 2021 - $75.1 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, 2022, determined that a provision is not required to be recognized in the consolidated statements of financial position (December 31, 2021 - $nil).

30. Related Party Transactions

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

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

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

31. Subsequent Events

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

Five-Year Summary

In thousands (except per unit)

Statement of Income Information	2022	2021	2020	2019	2018
Revenue	**$328,847**	$290,917	$261,690	$242,164	$215,959
Operating expenses	**($121,935)**	($107,682)	($97,836)	($89,828)	($80,247)
Net operating income	**$206,912**	$183,235	$163,854	$152,336	$135,712
Other income	**$1,797**	$1,059	$641	$6,059	$965
Financing costs	**($61,499)**	($51,521)	($48,919)	($47,443)	($42,648)
Administration	**($17,153)**	($15,988)	($13,936)	($14,881)	($14,201)
Depreciation	**($573)**	($573)	($630)	($720)	($859)
Fair value adjustments	**$11,861**	$211,708	$54,620	$230,079	$127,877
Loss on disposition	**$-**	$-	$-	($1,269)	($197)
Deferred tax expense	**($18,813)**	($42,393)	($9,590)	($40,636)	($31,478)
Net income	**$122,532**	$285,527	$146,040	$283,525	$175,171
Net income attributable to unitholders	**$122,516**	$285,514	$146,024	$283,536	$175,144

Funds From Operations (FFO)	2022	2021	2020	2019	2018
FFO	**$132,603**	$119,235	$104,678	$93,884	$81,808
FFO per unit (diluted)	**$1.11**	$1.07	$1.00	$0.98	$0.94

Statement of Financial Position Information	2022	2021	2020	2019	2018
Total assets	**$4,859,530**	$4,578,507	$3,776,560	$3,380,100	$2,824,406
Total liabilities	**$2,586,199**	$2,467,038	$2,008,302	$1,777,733	$1,655,456
Total equity	**$2,273,331**	$2,111,469	$1,768,258	$1,602,367	$1,168,950

Statement of Cash Flow Information	2022	2021	2020	2019	2018
Cash provided by operating activities	**$125,331**	$142,542	$123,514	$95,208	$89,738
Cash provided by financing activities	**$154,383**	$355,191	$224,396	$149,708	$237,657
Cash used in investing activities	**($277,048)**	($496,860)	($358,155)	($232,904)	($335,606)

Unit Information(1)	2022	2021	2020	2019	2018
Weighted average number of units (diluted)(1)	**119,678**	111,626	104,503	95,914	87,185
Units outstanding at December 31(1)	**120,699**	114,561	107,314	102,017	90,212
Unit price at December 31	**$16.21**	$23.59	$17.11	$18.94	$15.89
Market Capitalization at December 31(1)	**$1,956,531**	$2,702,494	$1,836,143	$1,932,202	$1,433,469
Distributions paid per unit	**$0.70**	$0.70	$0.68	$0.66	$0.64

(1) Includes Trust Units and Exchangeable Units.

Executive Team

Left to Right

Philip Fraser, President & Chief Executive Officer
Robert Richardson, Executive Vice President
Dale Noseworthy, Chief Financial Officer
Michael McLean, Senior Vice President, Developments
Ruth Buckle Senior, Vice President, Property Management
Erin Cleveland, Senior Vice President, Finance
Carrie Curtis, Vice President, Ontario & Alberta
Brian Jessop, Vice President, Operations
Jeremy Jackson, Vice President, Marketing
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

REGISTER 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

2022 ANNUAL DISTRIBUTION
$0.70 per unit

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INVESTOR INQUIRIES
investorrelations@killamreit.com
902.442.5322

Annual Meeting

The Annual Meeting of Unitholders will be held on

Friday, May 5, 2023
9:00 am Atlantic Time

Courtyard by Marriott
5120 Salter Street, Halifax, NS

Killam Apartment REIT

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Killam home for all