Management's Discussion and Analysis:
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Dollar amounts in thousands (except as noted)

Overview of the Structure of the MD&A

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

Forward-looking Statements

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

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

Non-GAAP Measures

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

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

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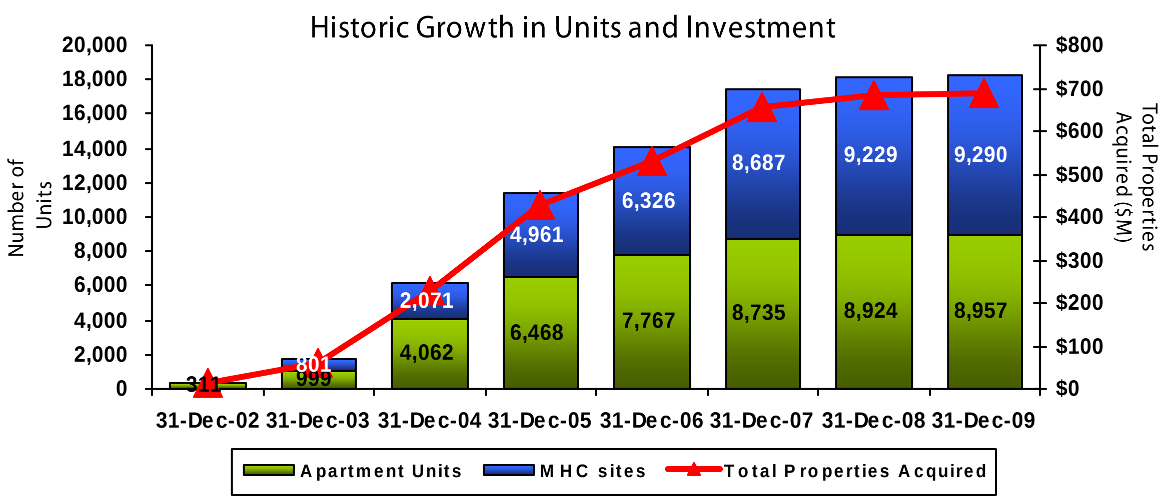
Overview of Killam Properties

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

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

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



Atlantic Canada's Dominant Apartment Landlord

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

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

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

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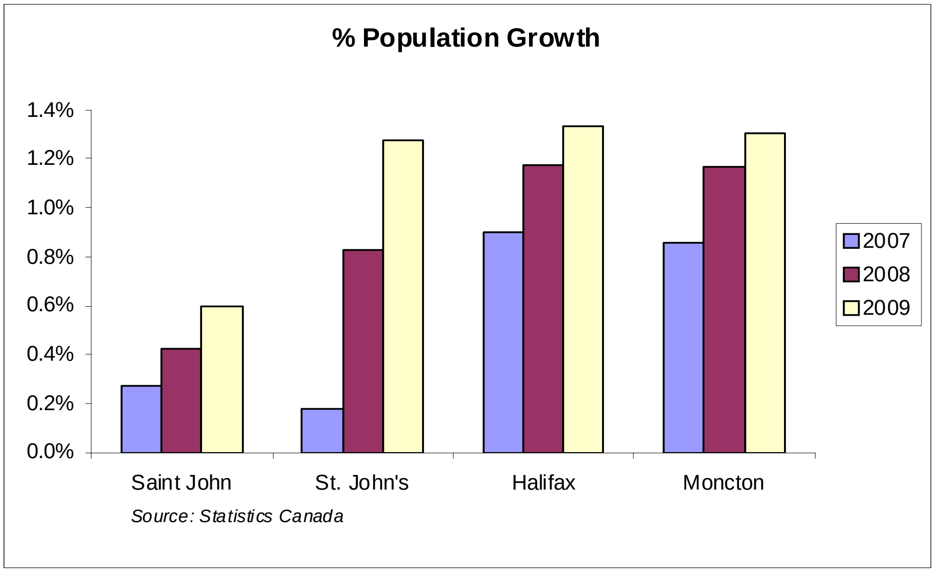
Atlantic Canada is home to 2.3 million people, approximately 40% of whom live in the six largest cities. The urbanization trend is strong across Atlantic Canada. The net change in population in Killam's core markets that are measured separately by Statistics Canada are shown in the following graph. Over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

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



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

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

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Consolidation of Apartments in Atlantic Canada

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

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

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

We Have Built a Solid Infrastructure

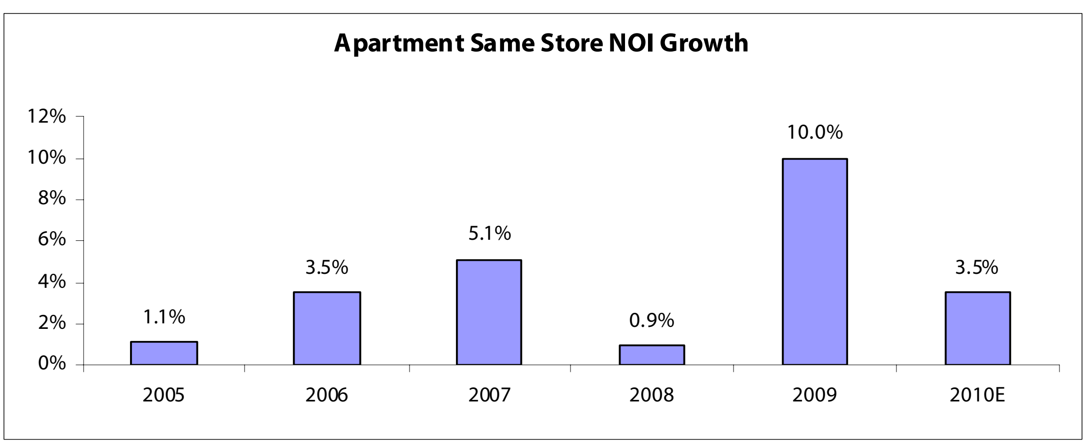
Killam's operational platform can support a larger and more geographically diverse portfolio. In addition to a head office in Halifax, Killam has regional offices in Saint John, Fredericton, Moncton and Charlottetown. Property management is handled internally for all apartment locations, with the exception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

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

Increasing the Value of the Apartment Portfolio through NOI Growth

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

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



Dollar amounts in thousands (except as noted)

Rent Increases Driven by the Market Rather Than Regulation

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

Managing Costs

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

Surplus Land

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

Manufactured Home Communities Offer Diversification and Stability

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

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

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

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How the MHC Business Works

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

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

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

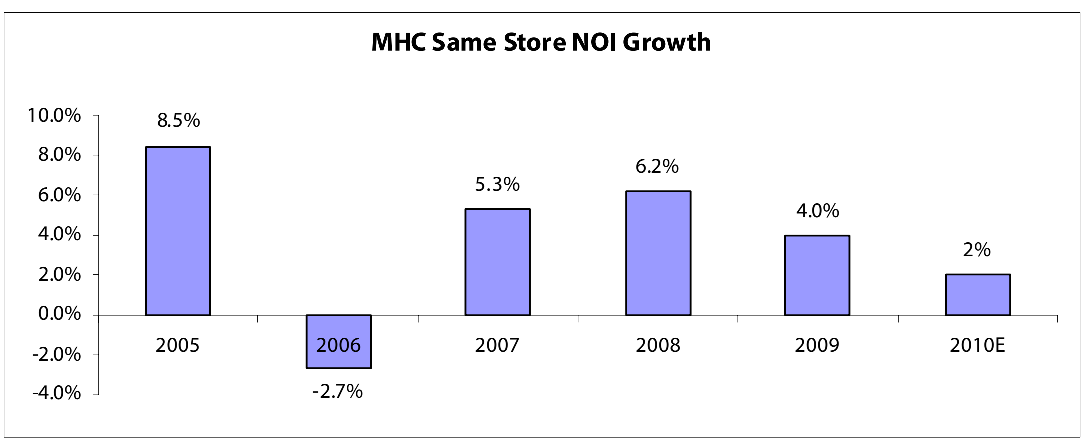
Consolidation of MHCs

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

Increasing the Value of the MHC Portfolio Through NOI Growth

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

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



Dollar amounts in thousands (except as noted)

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

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

Expansion Opportunities for MHCs

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

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

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

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

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

Home Sales

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

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Strategy and Objectives for Growth

Killam's business objectives are to:

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

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

Apartment Strategy and Objectives

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

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

Consolidation in the Canadian Apartment Market

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

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

Geographic Diversification

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

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

Growth in Same Store NOI

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

MHC Strategy and Objectives

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

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

Consolidation

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

Expand Killam's Current Portfolio

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

Maximize Earnings and Cash Flow Potential on Current Portfolio

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

Setting and Meeting Targets

Key Performance Drivers

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

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Performance Compared to 2009 Goals and Objectives

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

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

Goals and Objectives for 2010

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

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Ability to Deliver Results

Financial Resources to Fund Growth

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

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

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

Acquisition Opportunities

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

Summary Financial Results

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

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

(1) Excludes gain on debt retirement of $638

Dollar amounts in thousands (except as noted)

Review of Consolidated Operations

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

The following discussion relates to the consolidated operating results. Further detail on operating and same store results for Killam's apartment and MHC businesses is provided in the "Segment and Same Store Review" on page 17.

Total Operating Revenue and Portfolio Occupancy

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

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

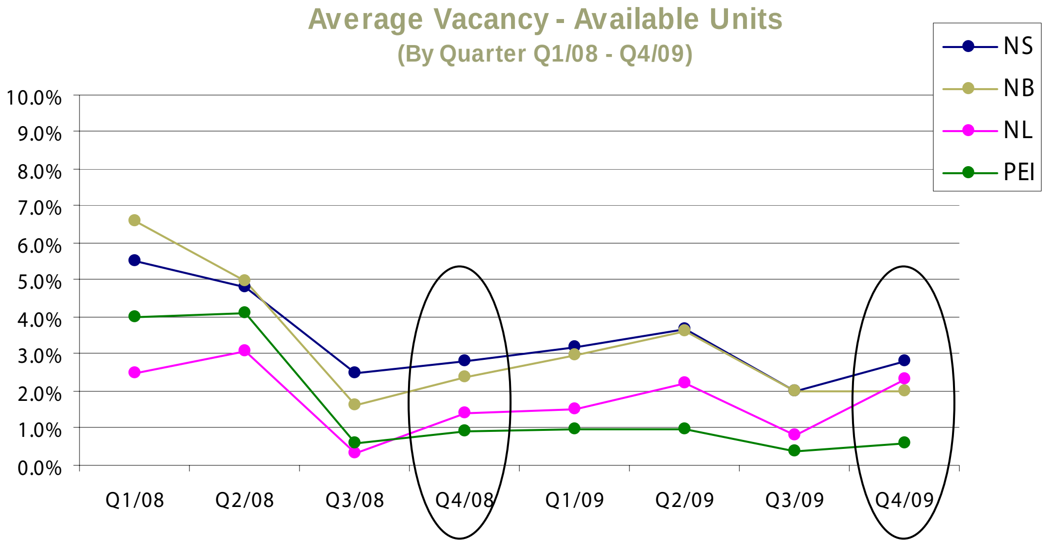
Atlantic Canada has historically experienced stable multi-residential occupancy rates. Killam outperformed the market in 2009, posting lower vacancy in October 2009 than the CMHC averages reported for the same period in their Fall Rental Market Report in all six of its core markets. The benefit of occupancy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

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

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

Dollar amounts in thousands (except as noted)

Vacancy



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

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

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

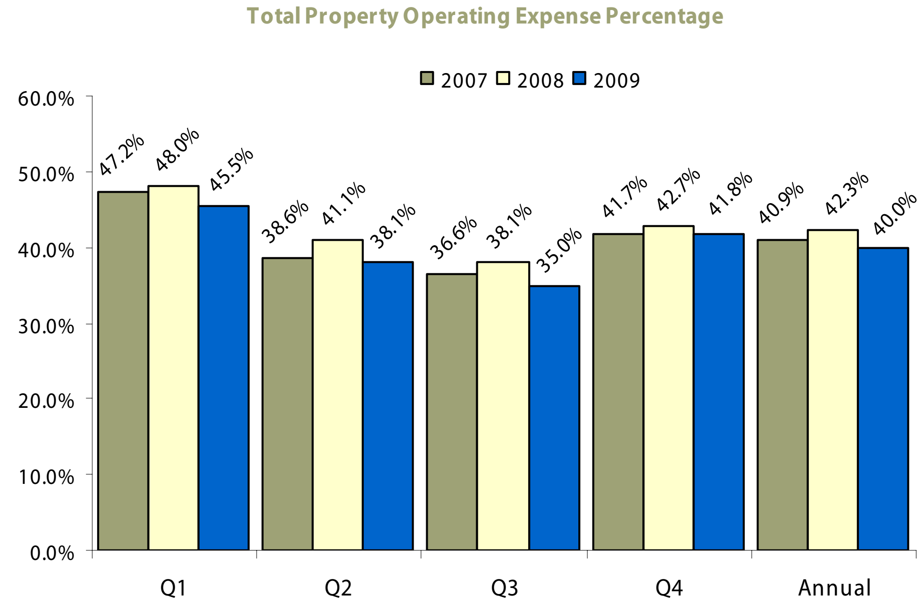
In New Brunswick, Saint John maintained its low vacancy rate of 1.6% (2008 – 1.5%) as did Fredericton (2.3% in 2009 versus 2.2% in 2008). Moncton's vacancy rate fell to 2.2% (2008 – 3.4%) leading to a slight decrease for the province as a whole. The provincial annual average of 2.7% was a decrease of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

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

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

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

Property Operating Expenses



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

Consolidated Same Store Results[1]

Same store property NOI showed significant positive growth of 8.4% during 2009, with NOI of $59.7 million, compared to $55.0 million in 2008. Rental revenues increased 4.2% year-over-year due primarily to rental increases as well as occupancy improvements in the first half of the year. NOI was also positively impacted by a 7.9% decrease in utilities, driven by lower energy costs. This decrease more than offset the 3.0% increase in property taxes and the 1.2% increase in operating expenses. Please see detailed segmented same store analysis on pages 18 and 22.

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

Management's Discussion and Analysis:

Dollar amounts in thousands (except as noted)

Segment & Same Store Review

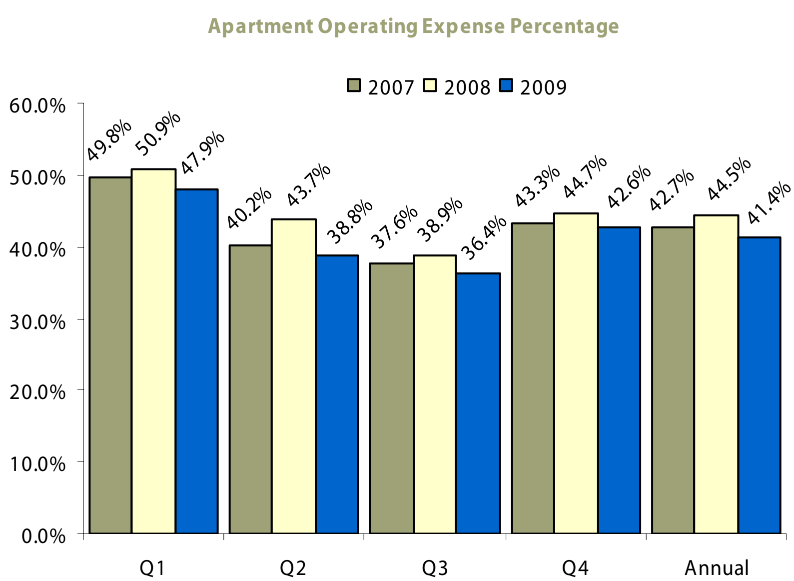
Apartments

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

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

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

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



Dollar amounts in thousands (except as noted)

Same Store Results - Apartments

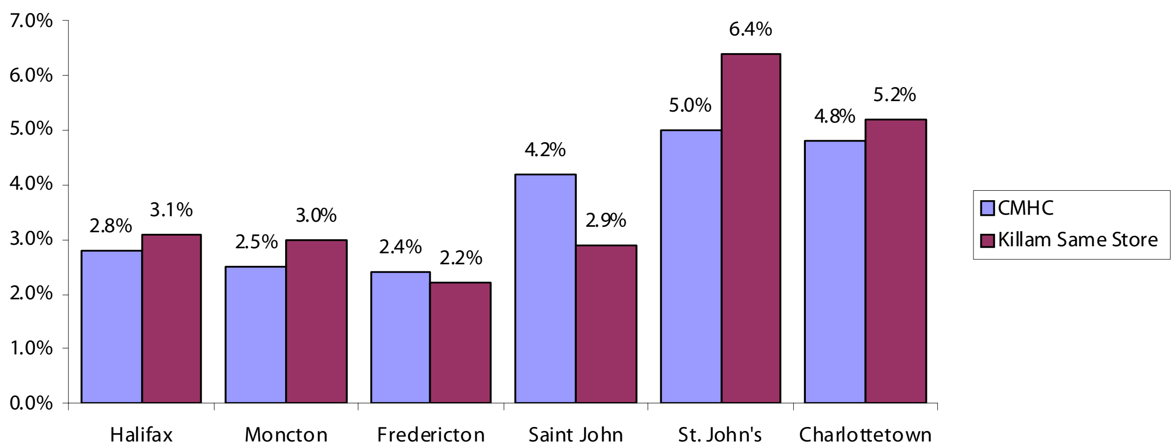
For the years ended December 31,		**2009**		2008	% Change
Rental revenue		**$76,418**		$73,233	4.3%
Other revenue		**214**		242	(11.6)%
Total revenue		**76,632**		73,475	4.3%
Property expenses					
Operating expenses	***16.3%***	**12,517**	*17.0%*	12,507	0.1%
Utilities	***14.4%***	**10,988**	*16.5%*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

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

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

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

Rental Increases



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

Dollar amounts in thousands (except as noted)

Expenses

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

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

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

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

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

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

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

Management's Discussion and Analysis:

Dollar amounts in thousands (except as noted)

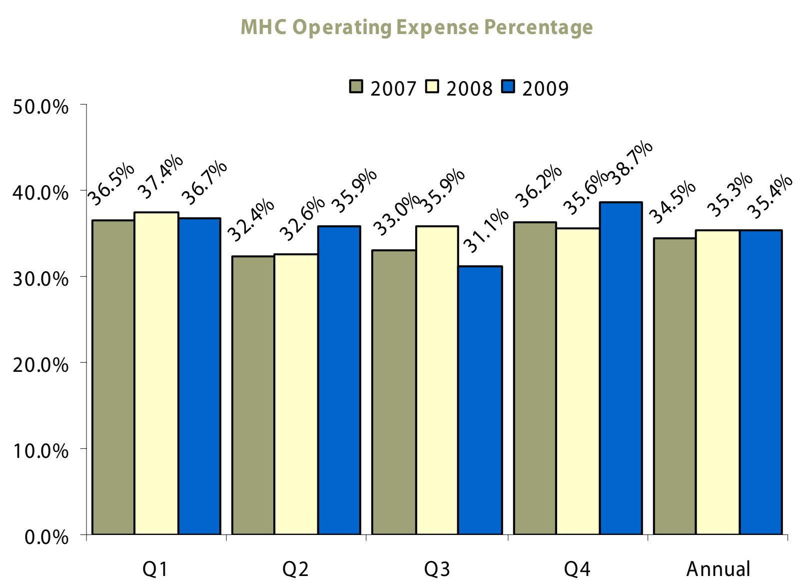
MHCs

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

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

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

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



Dollar amounts in thousands (except as noted)

MHCs - Segments

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

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

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

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

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

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

Dollar amounts in thousands (except as noted)

Same Store Results – MHC

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

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

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

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

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

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

Dollar amounts in thousands (except as noted)

Home Sales

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

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

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

Other Expenses

Financing Costs

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

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

The Company manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates of its mortgages. An annualized 1% change in the interest rate on Killam's mortgage and vendor debt at December 31, 2009 would affect financing costs by approximately $5.0 million per year. However, only $48.9 million of Killam's mortgage and vendor debt matures in the next twelve months and that same interest rate change would impact Killam by only $0.5 million per annum. See further discussion regarding Killam's mortgage refinancings under the "Mortgage and Debentures Payable" section beginning on page 29. The Company's credit facility is discussed on page 31 of the MD&A.

Dollar amounts in thousands (except as noted)

Depreciation Expense

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

Amortization of Deferred Financing Costs

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

General and Administrative Expenses

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

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

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

Provincial Large Corporation Tax (Capital Tax)

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

Income Tax

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

Management's Discussion and Analysis:

Dollar amounts in thousands (except as noted)

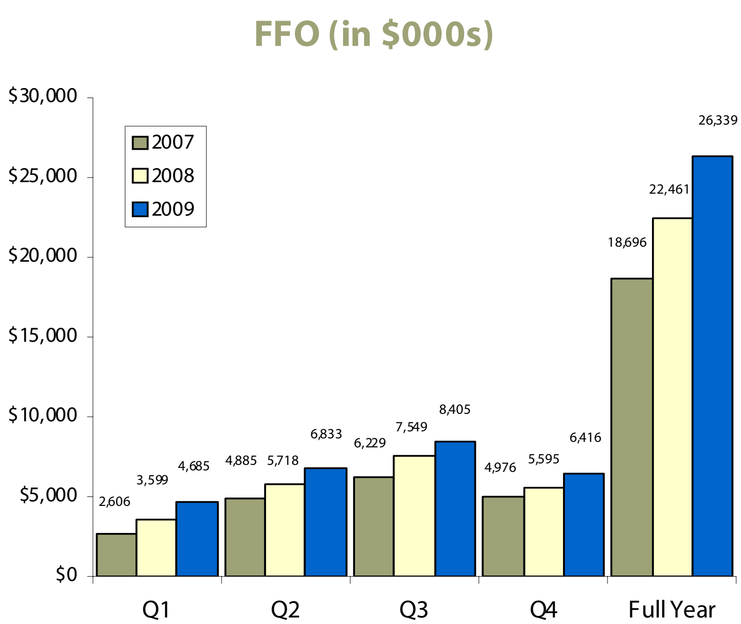
Funds from Operations (FFO)

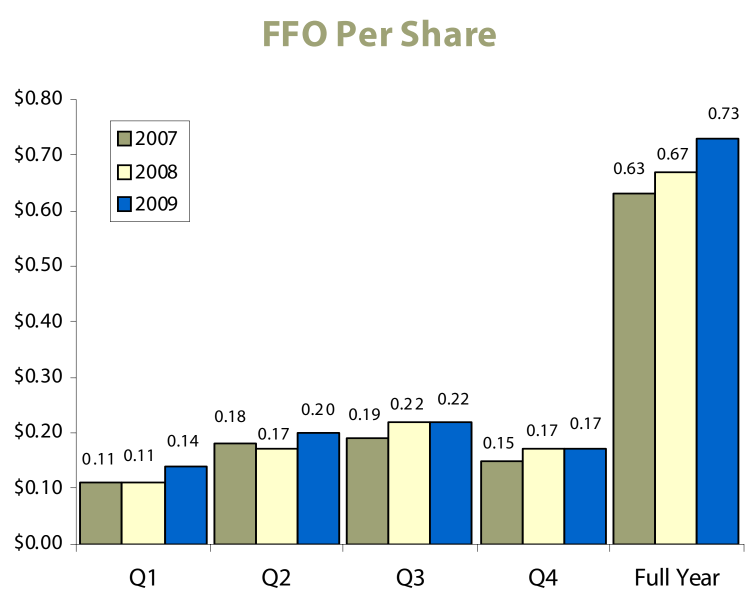
Management considers Funds from Operations (FFO) a key measurement of operating performance. FFO does not have a standardized meaning under GAAP and therefore may not be comparable to similarly titled measures presented by other public companies. Killam calculates FFO as follows:

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

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

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





Dollar amounts in thousands (except as noted)

Sources and Uses of Cash

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

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

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

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

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

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

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

Management's Discussion and Analysis:

Dollar amounts in thousands (except as noted)

Consolidated Balance Sheet

Real Estate Assets

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

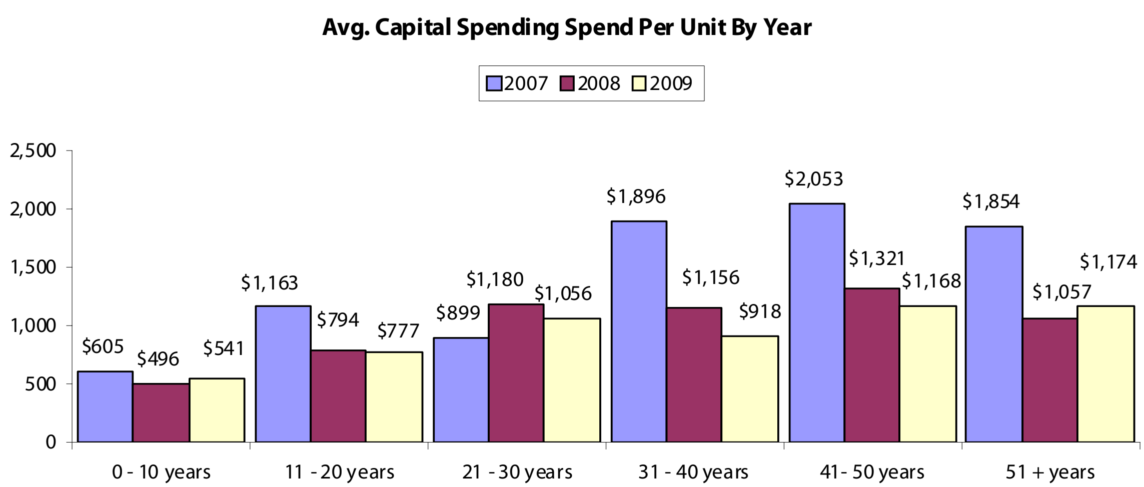
Capital assets decreased to $709.3 million from $718.6 million, as depreciation of $27.3 million offset $15.2 million in capital improvements.

Capital Improvements

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

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

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



Dollar amounts in thousands (except as noted)

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

Development and Energy Projects

	2009			2008		
	Apts	**MHC**	**Total**	Apts	MHC	Total
Development projects	**$0**	**$4,051**	**$4,051**	$0	$1,764	$1,764
Energy projects	**973**	**216**	**1,189**	233	-	233
	$973	**$4,267**	**$5,240**	$233	$1,764	$1,997

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

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

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

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

Other Assets

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

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

Dollar amounts in thousands (except as noted)

Mortgages and Debentures Payable

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

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

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

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

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

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

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

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

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

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

	Number of Properties	**NOI (last 12 months)**	**Principal Balance (at maturity)**
2010		*($000s)*	*($000s)*
Apartments with debt maturing in 2010 (1)	18	$4,825	$32,589
MHCs with debt maturing in 2010	7	2,270	15,371
2010 Debt Maturities	25	$7,095	$47,960
2011			
Apartments with debt maturing in 2011 (2)	18	$6,227	$46,742
MHCs with debt maturing in 2011	5	705	5,314
2011 Debt Maturities	23	$6,932	$52,056

(1) Excludes a $0.4 million mortgage which matures in February 2010 and will be refinanced as part of another mortgage on the same property being refinanced in 2011.

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

Debentures

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

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

Credit Facility

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

Shareholders' Equity

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

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

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

For the year ended December 31, 2009, 53,600 common shares were purchased and cancelled (2008 – 225,100 common shares). The shares were purchased at an average price of $5.28 per share (2008 -

Dollar amounts in thousands (except as noted)

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

Quarterly Results and Discussion of Q4 Operations

Summary of quarterly results

The Company realized quarter-over-quarter FFO per share growth during the first and second quarters as improved occupancy and increased rents more than offset increased operating costs. During the third and fourth quarters FFO per share was flat, as the Company issued 4.3 million additional shares in the third quarter. An eight quarter trend highlighting key operating results is shown below.

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

Fourth Quarter Review

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

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

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

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

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

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

Risk Management

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

General Risks

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

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

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

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

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

Specific Risks

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

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

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

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

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

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

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

Critical Accounting Estimates

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

Impairment of Long-lived Assets

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

Building Amortization

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

Property Acquisitions

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

Capitalized Expenditures

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

Stock-based Compensation

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

Accounting Policy Changes

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

Section 3064 – Goodwill and Intangible Assets

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

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

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

Future Accounting Policy Changes

Business combinations

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

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

International Financial Reporting Standards (IFRS)

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

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

Scoping and Diagnostics

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

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

Impact analysis, evaluation and design

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

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

Financial reporting and accounting policies:

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

Information systems:

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

Internal controls over financial reporting and disclosure controls and procedures:

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

Business processes:

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

Training and communication:

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

Implementation and review

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

Summary of Key Differences between IFRS and GAAP

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

Investment Property – IAS 40

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

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

Business Combinations – IFRS 3 Revised

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

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

Income Taxes – IAS 12

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

Disclosure Controls and Procedures and Internal Controls

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

Disclosure Controls and Procedures

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

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

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

Internal Controls over Financial Reporting

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

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

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

Subsequent Events

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

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

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