



**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

**March 9, 2010**

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## NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Information Form ("AIF") contains forward looking statements and information including, without limitation, information and statements respecting Killam's (as defined herein) expectations with regard to the planned growth of Killam's property portfolio, future acquisitions including the location of such acquisitions, improvements in the profitability of Killam's property portfolio, the expansion of the number of rentable sites and the costs of such expansions, the growth of Killam's home sale business and the revenue to be derived therefrom, management's expectations regarding capital improvement costs and estimates of third parties with respect to industry and market conditions including, without limitation, estimates regarding future vacancy rates and average rents. Such forward looking information and statements relate, but are not limited to, Killam's expectations, intentions, plans and beliefs.

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 within each of Killam's business segments, national and regional economic conditions and the availability of capital to fund further investments in Killam's business, as well as those described under the heading "Risk Factors" in this AIF. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements contained in this AIF.

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 will 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 applicable law.

***The following should also be read in conjunction with Killam's December 31, 2009 financial statements and the notes thereto, along with other posted information concerning Killam, including the management's discussion and analysis for the year ended December 31, 2009. All of these documents are available in written and electronic versions either from Killam on request, at [www.killamproperties.com](http://www.killamproperties.com), or at [www.sedar.com](http://www.sedar.com).***

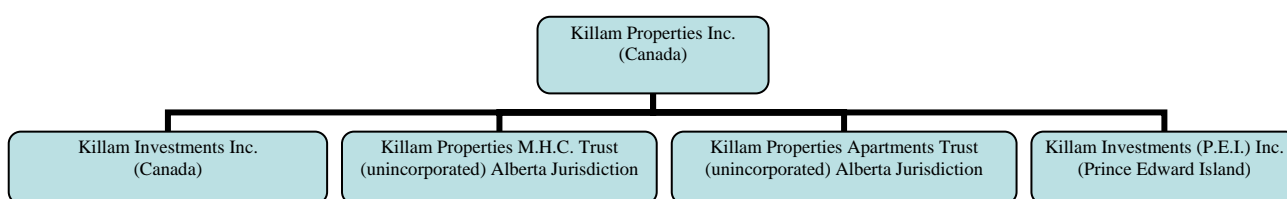
## CORPORATE STRUCTURE

Killam Properties Inc. ("Killam" or the "Corporation") was incorporated under the *Canada Business Corporations Act* on May 26, 2000. On October 25, 2000, the Corporation filed Articles of Amendment to remove the private company restrictions previously applicable to the Corporation.

The registered and records office of the Corporation is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4. The head office of the Corporation is located at 3700 Kempt Road, Suite 100, Halifax, Nova Scotia, B3K 4X8.

On March 6, 2003, the Corporation created two internal trusts (the "Trusts"). Killam Properties Apartments Trust was organized to acquire the Corporation's investments in apartment buildings and Killam Properties M.H.C. Trust was organized to acquire the Corporation's investments in manufactured home communities ("MHC" or "MHCs"). A separate corporation, Killam Investments Inc., was incorporated to act as nominee and hold legal title to the properties acquired by the Trusts in all jurisdictions except Prince Edward Island, where Killam Investments (P.E.I.) Inc. acts as the nominee and holds title to properties acquired by the Trusts. Killam Properties Inc. is the sole beneficiary of the Trusts.

The accompanying organization chart presents the Corporation's principal direct and indirect subsidiaries as at December 31, 2009 including jurisdiction of incorporation. The Corporation beneficially owns and controls 100% of the voting shares of all of its subsidiaries.

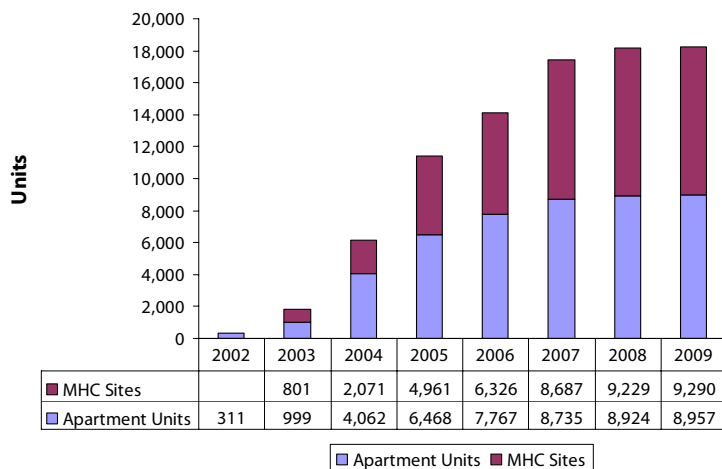


## GENERAL DEVELOPMENT OF THE BUSINESS

### History

Killam completed its first acquisitions on February 22, 2002 with the purchase of three apartment buildings. The Corporation acquired its first MHC on March 11, 2003. Killam has continued to grow through the consolidation of apartments in Atlantic Canada and MHCs throughout Canada since 2003 and at the end of 2009, Killam's portfolio included 8,957 apartment units and 9,290 MHC units. The Corporation continues to be focused on growing the business through acquisitions and expects to continue to increase its unit count in the future. The following chart highlights Killam's unit growth on an annual basis.

**Unit Growth by Year**



## Property Acquisitions

Below are Killam's acquisitions completed over the last three years:

### 2007 Acquisitions

Property	Location	Date of Acquisition	Purchase Price (\$000's)	# of Units	Price per Unit (\$000's)
<b>Apartment Acquisitions</b>					
31 Carrington Place	Halifax, NS	February 2	\$4,180	38	\$110
Buckingham Place	Moncton, NB	February 19	\$4,000	55	\$73
Edward Court	Miramichi, NB	February 19	\$5,100	96	\$53
364 & 368 Gauvin Road	Moncton, NB	February 19	\$5,150	80	\$64
6087 South Street	Halifax, NS	May 18	\$1,125	9	\$125
6101 South Street	Halifax, NS	May 18	\$4,125	30	\$138
Carrington House	Fredericton, NB	May 30	\$4,200	41	\$102
21 Parkland Drive	Halifax, NS	June 22	\$13,135	98	\$134
Forest Hill Towers	Fredericton, NB	July 20	\$12,500	151	\$83
Princess Place	Fredericton, NB	July 20	\$7,850	141	\$56
Blackshire Court <sup>(1)</sup>	St. John's, NL	November 15	\$510	17	\$30
Bridlewood Apartments	Charlottetown, PE	November 29	\$4,950	66	\$75
1 Oak Street	Halifax, NS	December 17	\$10,300	146	\$71
<b>Total Apartment Acquisitions</b>			<b>\$77,125</b>	<b>968</b>	<b>\$80</b>
<b>MHC Acquisitions</b>					
Hillpark Estates	Whitecourt, AB	February 21	\$4,400	136	\$32
Birchlee Court	Halifax, NS	February 23	\$3,125	176	\$18
Stanley Park	Erin, Ont	March 5	\$2,500	108	\$23
Silver Birch Estates	Antigonish, NS	April 16	\$950	44	\$22
Kent Drive	Amherst, NS	April 20	\$800	50	\$16
Mountainview Estates	Halifax, NS	June 28	\$7,000	353	\$20
Paradise Valley <sup>(2)</sup>	Forest, ON	July 26	\$4,475	392	\$11
The Poplars	Gibsons, BC	July 31	\$5,650	130	\$43
Enfield Estates	Enfield, NS	August 1	\$1,050	56	\$19
Evergreen Village	Whitecourt, AB	August 10	\$2,385	72	\$33
Green Haven Estates	Sarnia, ON	August 23	\$9,000	231	\$39
Millcreek	Guelph, ON	September 27	\$2,300	72	\$32
Family Paradise <sup>(2)</sup>	Walton, ON	October 15	\$1,750	214	\$8
Camper's City <sup>(2)</sup>	Moncton, NB	November 7	\$2,250	224	\$10
<b>Total MHC Acquisitions</b>			<b>\$47,635</b>	<b>2,258</b>	<b>\$21</b>
<b>Total 2007 Acquisitions</b>			<b>\$124,760</b>	<b>3,226</b>	

(1) Killam increased its ownership in 72-unit Blackshire Court to 96% from 72%.

(2) Seasonal Communities

## 2008 Acquisitions

Property	Location	Date of Acquisition	Purchase Price (\$000's)	# of Units	Price per Unit (\$000's)
<b>Apartment Acquisitions</b>					
37 Somerset	Saint John, NB	July 11	\$2,250	21	\$107
Blue Rock Estates	Saint John, NB	August 19	\$5,615	60	\$94
The James	Halifax, NS	November 6	\$21,300	108	\$197
<b>Total Apartment Acquisitions</b>			<b>\$29,165</b>	<b>189</b>	<b>\$154</b>
<b>MHC Acquisitions <sup>(2)</sup></b>					
Domaine Le Village	Rockland, ON	May 30	\$2,050	74	\$28
Woodhaven Resort <sup>(1)</sup>	Forest, ON	June 27	\$1,725	126	\$14
Holiday Park <sup>(1)</sup>	Southampton, ON	July 22	\$3,500	289	\$12
<b>Total MHC Acquisitions</b>			<b>\$7,275</b>	<b>489</b>	<b>\$15</b>
<b>Total 2008 Acquisitions</b>			<b>\$36,440</b>	<b>678</b>	

(1) Seasonal Communities

(2) In addition to acquisitions, Killam added 53 MHC sites in 2008 through MHC expansions at three communities, including Golden Horseshoe (19 sites), Cowen (18 sites) and Silver Birch (16 sites).

## 2009 Acquisitions

Property	Location	Date of Acquisition	Purchase Price (\$000's)	# of Units	Price per Unit (\$000's)
<b>Apartment Acquisitions</b>					
Garden Park Apartments <sup>(1)</sup>	Halifax, NS	December 30	\$2,950	33	\$89
<b>Total Apartment Acquisitions <sup>(2)</sup></b>			<b>\$2,950</b>	<b>33</b>	<b>\$89</b>

(1) Killam increased its ownership in the 246-unit Garden Park Apartments to 31% from 17%.

(2) Killam added 42 MHC sites in 2009 through MHC expansions at two communities, including the Village of Lisotwel (10 sites) and Birchlee Estates (32 sites).

## Significant Acquisitions

Although the Corporation acquired 32 properties over the last three years, there have been no individually significant business acquisitions during that time.

### **Capital Raised to Fund Growth**

Killam's unit growth has been funded by debt and equity. Generally, 70% to 75% of the purchase price for acquisitions of both apartments and MHCs has been funded through mortgages. The remaining 25%-30% has been funded through the issuance of common shares, and through non-mortgage debt, including convertible debentures, subordinated debentures and an acquisition bridge facility. Capital raised and debt arranged to fund the non-mortgage portion of Killam's growth since 2007 include:

**February 5, 2007** - The Corporation arranged a new secured revolving credit facility to replace its then-existing credit facility. The \$40.0 million facility, comprised of two tranches, was intended to be used to finance the Corporation's ongoing acquisition program, and was on terms more favourable to the Corporation than the previous facility.

**February 16, 2007** - The Corporation completed a private placement of 4.35 million common shares at a price of \$9.28 per share for aggregate gross proceeds of \$40.4 million.

**June 19, 2007** - The Corporation completed a public offering of 6.4 million common shares at a price of \$10.25 per share for aggregate gross proceeds of \$65.6 million.

**May 28, 2008** - The Corporation extended and amended its existing secured revolving credit facility. The amount available under the amended agreement varies with the value of the pledged assets, to a maximum of \$15 million. The facility includes the option for a commitment increase, allowing a one-time opportunity to increase the credit limit to \$40 million.

**May 27, 2009** - The Company extended its existing secured revolving credit facility.

**July 2, 2009** - The Corporation completed a public offering of 4.255 million common shares at a price of \$5.80 per share for aggregate gross proceeds of \$24.7 million.

## Financial Results

Killam's growth through acquisition and increasing same store property net operating income ("NOI") has led to revenue growth and increased funds from operations ("FFO"). The following table summarizes Killam's historic financial information over the last three years, and should be read in conjunction with Killam's December 31, 2009 financial statements and notes thereto, along with other posted information concerning Killam, including management's discussion and analysis for the year ended December 31, 2009, which are available in written and electronic versions either from Killam on request, or at [www.sedar.com](http://www.sedar.com).

### Statement of Earnings Information (in thousands)

For the years ended December 31,

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Income from Property Operations	\$62,606	\$56,458	\$49,967
Income from Home Sales	234	1,172	488
Corporate Revenue	424	763	1,156
Interest Costs	(30,699)	(29,999)	(27,596)
General and Administrative	(6,732)	(6,247)	(5,548)
Gain on Debt Settlement	638	-	-
Depreciation and Amortization	(28,831)	(28,712)	(25,664)
Provincial Capital Tax	(313)	(401)	(478)
Recovery of Income Taxes	830	1,958	2,270
Net Loss	<u>\$ (1,843)</u>	<u>\$ (5,008)</u>	<u>\$ (5,405)</u>

### Balance Sheet Information (in thousands)

As at December 31,

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Capital Assets (net)	\$709,314	\$718,550	\$694,652
Other Assets	30,059	20,118	29,028
Total Assets	<u>\$739,373</u>	<u>\$738,668</u>	<u>\$723,680</u>
Mortgage Debt	\$500,080	\$484,092	\$458,459
Other Liabilities	62,091	81,383	71,337
Shareholders' Equity	177,202	173,193	193,884
Total Liabilities and Shareholders' Equity	<u>\$739,373</u>	<u>\$738,668</u>	<u>\$723,680</u>

### Statement of Cash Flow Information (in thousands)

For the years ended December 31,

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Cash Provided by Operating Activities	\$26,226	\$22,364	\$18,412
Cash Provided by Financing Activities	\$(300)	\$4,862	\$116,358
Cash Used in Investing Activities	\$(19,299)	\$(37,527)	\$(123,164)

### Funds From Operations (in thousands)

For the years ended December 31,

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net loss	\$ (1,843)	\$ (5,008)	\$ (5,405)
Depreciation and amortization	28,831	28,712	25,664
Non cash debenture interest	369	345	322
Non cash share compensation	450	370	385
Gain on debt retirement	(638)	-	-
Future income tax (recovery) expense	(830)	(1,958)	(2,270)
FFO	<u>\$26,339</u>	<u>\$22,461</u>	<u>\$18,696</u>
FFO per share	<u>\$0.73</u>	<u>\$0.67</u>	<u>\$0.63</u>

There are measures included in this AIF 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 Corporation includes these measures as a means of measuring financial performance.

- NOI is calculated by the Corporation 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.
- FFO is calculated by the Corporation 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 Corporation are revenues and property operating expenses for stabilized properties the Corporation has owned for equivalent periods in 2008 and 2009. This represents 97% of the portfolio in 2009.
- Capitalization rate (cap rate) is the rate calculated by dividing the forecasted net operating income from a property by the purchase price.

## **DESCRIPTION OF THE BUSINESS**

### **Summary**

Killam is one of Canada's largest residential landlords, owning and operating 8,957 apartment units in Atlantic Canada and 9,290 MHC sites across Canada. Since its first acquisition in 2002, Killam has built an established portfolio of 173 high-quality properties and a strong operating platform. Management is committed to building on this foundation; maximizing the return on Killam's assets, and continuing to grow geographically with accretive acquisitions in Canada.

### **Principal Asset Classes of the Corporation**

#### ***Apartments***

The Corporation acquires and manages apartments as they offer the following:

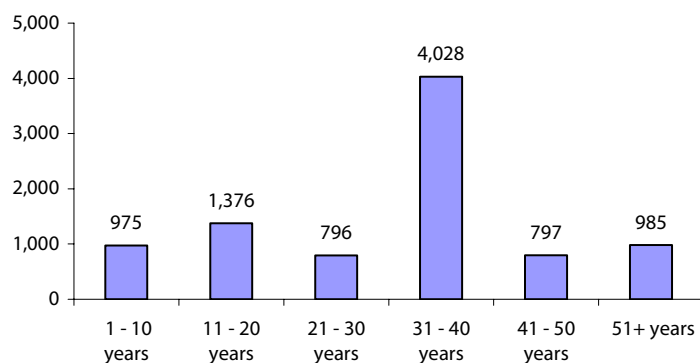
- A stable cash flow from a diverse tenant group.
- Accessible Canada Mortgage and Housing Corporation ("CMHC") insured financing.
- Consistently low vacancy across Canada.
- Low lease-up costs relative to other real estate asset classes.
- An asset class that is historically resistant to market downturns.

The Corporation's 118 apartment properties held at December 31, 2009 are a combination of low-rise and high-rise buildings, with some townhouse complexes, principally located in the six largest urban centres in Atlantic Canada, as highlighted in the following table:

	Units	Number of Properties	Market Share %	% of Apartment NOI
Halifax, NS	4,073	44	10%	50%
Moncton, NB	1,088	21	11%	12%
Saint John, NB	1,143	13	13%	10%
Fredericton, NB	983	13	14%	10%
Charlottetown, PE	638	12	16%	8%
St. John's, NL	584	8	16%	7%
Other	448	7	3%	3%
<b>Total</b>	<b>8,957</b>	<b>118</b>		<b>100%</b>

The building mix and average age of approximately 27 years is representative of the markets in each of the Corporation's core cities. The following graph shows the age distribution, by unit, of Killam's apartment portfolio.

**Age Breakdown of Apartment Units<sup>1</sup>**



Note: (1) The age of two properties that were upgraded extensively and repositioned in their respective markets were adjusted to be the effective age of 10 years following the completion of the repositioning. This includes Woodward Gardens and 3 Veronica Drive.

The average rent for the apartment portfolio as at December 31, 2009 was \$758 per month.

The Corporation owns 100% of the assets in all but two of its apartments, and no one property represents more than 10% of the overall rental revenue of the Corporation.

### ***Manufactured Home Communities***

The Corporation also acquires and manages MHCs, also known as land lease communities or trailer parks, throughout Canada. Killam owns the land and infrastructure supporting each

community, including utility connections, streets, lighting, driveways, common area amenities and other capital improvements, and leases the lot to the tenant, who owns their own home and pays Killam monthly lot rent. The average lot rent for the MHC portfolio at December 31, 2009 was \$221 per month.

The Corporation believes MHCs are an asset class that have historically been overlooked in Canada, and add diversity, stability and growth opportunities to its apartment portfolio. Features specific to MHCs include:

- Consolidation opportunities.
- Stable and predictable operations with low tenant turnover of approximately 1%. Typically, should a tenant choose to leave a community, they sell their home, which remains on the site and Killam collects the rent uninterrupted.
- High margin business with low capital requirements, as the MHC homeowners are responsible for repairs, maintenance and operating costs, which removes a significant variable cost typically borne by Killam with apartments.
- Consistently strong occupancy rates of approximately 99%.
- High barriers to entry due to restrictive zoning.
- Internal growth opportunities through rental increases and the expansion of existing properties and home sales.

The Corporation's 55 MHCs held at December 31, 2009 are located across Canada as indicated in the following table:

	Sites	Number of Communities	% of MHC NOI
Ontario	3,486	23	39%
Nova Scotia	2,548	15	23%
New Brunswick	2,390	10	25%
Alberta	319	3	6%
Saskatchewan	247	1	3%
Newfoundland	170	2	1%
British Columbia	130	1	3%
<b>Total</b>	<b>9,290</b>	<b>55</b>	<b>100%</b>

### *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 the Corporation's 55 MHCs where expansion is expected to total 890 sites. Over the last four years, Killam has added 225 sites with expansions of seven communities.

The average per-site cost to expand varies based on the existing infrastructure in a specific MHC. 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 much less than Killam's typical acquisition cost.

### *New Home Sales*

During the last four years Killam has participated in new manufactured home sales on its expanded MHC sites by acting as a retailer for local home manufacturers and by supplying homes to expanded MHC sites.

The houses are built in a manufacturing facility and delivered by road to the sites. Homes are available in many sizes and layouts and typically sell for between \$90,000 and \$185,000, with the higher sale prices usually in Ontario and Western Canada. Management expects to net approximately \$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.

During 2009 Killam completed 34 home sales and home sale placements. This compares with 83 and 45 home sales and home sale placements during 2008 and 2007, respectively. The reduction in home sale activity in 2009 was attributable to both the general economic slowdown for much of the year, and a delay in the completion of Killam's expansion communities. Killam expects to continue to participate in new manufactured home sales as it continues to develop new MHC sites where expansion opportunity exists and purchases new MHCs with expansion potential.

### Portfolio Summary – By Type

As at December 31, 2009, Killam owned 173 properties totaling 18,245 units. The breakdown between apartments and MHCs is as follows:

<b>As at December 31, 2009</b>	<b>Capital Assets <sup>(1)</sup></b>		<b>Number of</b>	
	<b>(000's)</b>	<b>Percentage</b>	<b>Units</b>	<b>Percentage</b>
Apartments	\$622,356	76.0%	8,957	49.1%
Manufactured Home Communities	193,935	23.7%	9,290	50.9%
Corporate	2,296	0.3%	-	-
<b>Total</b>	<b>\$818,587</b>	<b>100.0%</b>	<b>18,247</b>	<b>100.0%</b>

(1) Based on gross book value

<b>For the Year Ended December 31,</b>	<b>2009</b>		<b>2008</b>	
	<b>Revenue (000's)</b>	<b>Percentage</b>	<b>Revenue (000's)</b>	<b>Percentage</b>
Apartments	\$80,276	74.7%	\$75,116	71.2%
Manufactured Home Communities	24,098	22.4%	22,812	21.6%
Home Sales	2,739	2.5%	6,799	6.5%
Corporate	424	0.4%	763	0.7%
<b>Total</b>	<b>\$107,537</b>	<b>100.0%</b>	<b>\$105,490</b>	<b>100.0%</b>

### Portfolio Summary – By Location

<b>As at December 31, 2009</b>	<b>Capital Assets <sup>(1)</sup></b>		<b>Number of</b>	
	<b>(000's)</b>	<b>Percentage</b>	<b>Units</b>	<b>Percentage</b>
Halifax	\$338,203	40.9%	5,142	28.2%
Moncton	100,892	12.5%	2,458	13.5%
Fredericton	84,812	10.5%	1,669	9.1%
Ontario	81,547	9.9%	3,486	19.1%
Saint John	64,937	8.0%	1,243	6.8%
Prince Edward Island	49,361	6.1%	686	3.8%
Newfoundland	37,048	4.5%	902	4.9%
Other Nova Scotia	35,020	4.3%	1,635	9.0%
Alberta	10,616	1.3%	319	1.7%
British Columbia	5,915	0.7%	130	0.7%
Saskatchewan	6,077	0.8%	247	1.4%
Corporate	2,295	0.3%	-	-
Other New Brunswick	1,864	0.2%	330	1.8%
<b>Total</b>	<b>\$818,587</b>	<b>100.0%</b>	<b>18,247</b>	<b>100.0%</b>

(1) Based on gross book value

## Apartment Portfolio

NOVA SCOTIA	Units	Year Built	Average Rent	
			Dec-09	Dec-08
<b>Halifax</b>				
1 Oak Street	146	1969	\$792	\$766
10-214 Harlington Crescent	60	1978	733	704
159 Radcliffe Drive	25	1995	902	877
175 - 211 Harlington Crescent	60	1978	730	708
21 Parkland Drive	98	2002	1,021	980
26 Alton Drive & 36 Kelly Street	80	1969	635	617
294 - 300 Main Street	58	1969	732	682
3 Veronica Drive	70	1983	803	772
31 Carrington Place	38	1998	1,116	1,081
3565 Connaught Avenue	19	1958	741	720
50 Barkton Lane	63	1991	771	749
5206 Tobin Street	47	1993	982	947
57 Westgrove Place	41	1969	721	694
59 Glenforest/21 Plateau	153	1978	701	670
6 Jamieson Street	24	1965	682	656
6087 South Street	9	1999	1,287	1,310
6101 South Street	30	2002	1,398	1,395
67-141 Harlington Crescent	60	1978	722	696
75 Knightsridge Drive	41	1986	811	790
85-127 Harlington Crescent	60	1978	729	709
9 Bruce Street	60	1974	544	521
9 Sybyl Court	22	1975	668	647
95 Knightsridge Drive	46	1984	882	857
Bedford Apartments	53	1987	709	685
Dillman Place	60	1970s	671	652
Garden Park Apartments	75	1980	845	806
Glenforest Apartments	80	1969	820	803
Glenmoir Terrace	28	1972	672	645
Hillcrest Apartments	50	1980	734	707
Kent Street Properties	139	1950's	806	785
Lakefront Apartments	396	1954	683	663
Linden Lea & Pleasant Street	28	1950s	628	616
Maplehurst Apartments	268	1965	730	706
Maplehurst Houses	15	1965	942	924
Parker Street Apartments	239	1960-75	685	665
Parkridge Place	76	2002	914	888
Quinpool Court	198	1978	948	930
Quinpool Towers	233	1978	980	956
Shaunslieve Apartments	154	1978	778	758
Sheradon Place	82	1979	817	788
Spring Garden Terrace	201	1964	1,051	1,016
The James	108	2008	1,313	1,363
Victoria Gardens	198	1954	690	668
Waterview Place	82	1971	729	700
<b>Halifax Total</b>	<b>4,073</b>			
<b>Sydney</b>				
552 Kings Road	17	1974	\$596	\$596
Cabot House	88	1974	806	786
Moxham Court	51	1998	896	861
<b>Sydney Total</b>	<b>156</b>			
<b>Nova Scotia Total</b>	<b>4,229</b>			

NEW BRUNSWICK	Units	Year Built	Average Rent	
			Dec-09	Dec-08
<b>Fredericton</b>				
116 & 126 Wilsey Avenue	48	1975	\$679	\$670
127 & 157 Biggs Street	46	1985/92	720	710
260 Wetmore Road	38	1978	691	658
50,60 Greenfield & 190 Parkside	72	1977/86	640	621
75 Greensfield Drive	44	1980	609	587
969 Regent Street	62	1997/01	833	806
Carrington House	41	2002	885	867
Elroy Apartments	194	1973	758	746
Forest Hill Towers <sup>(1)</sup>	151	1968-1979	787	778
Princess Place	141	1968-1979	714	691
Southgate Apartments	47	2003	892	873
Venus Apartments	54	1965	809	807
Westwood Apartment	45	1975	606	594
<b>Fredericton Total</b>	<b>983</b>			
<b>Moncton</b>				
100 Archibald	60	2003	\$760	\$737
101 Archibald	60	1993	713	695
108-118 Archibald	2	n/a	663	648
1111 Main Street	16	1957	1,476	1,476
276 - 350 Gauvin Road	84	1991-96	668	646
303 Normandie Street	70	1994	756	736
316 Acadie Avenue	48	1996	681	654
360 Acadie Avenue	60	1998	675	653
364-368 Gauvin Road	80	1995	697	679
Buckingham Place	55	1998	759	736
Cambridge Court	45	1994	808	789
Cambridge Place	63	1995	989	961
Cameron Street	81	1966/1967	616	598
Gordon/Bonaccord Street	41	1984/pre 1950	633	617
Lakeview Estates	48	1980/81	626	600
Lorentz Apartments	101	1969	694	673
Lutz & Kendra Street	40	1950/75	681	665
Pine Glen Apartments	54	1974	675	654
Suffolk Street	80	2000	682	664
<b>Moncton Total</b>	<b>1,088</b>			
<b>Saint John</b>				
115 Woodhaven Drive	24	1977	\$565	\$547
37 Somerset Place	21	2007	1,077	1,069
53 Somerset Place	16	1973	644	624
Blue Rock Estates	60	2007	775	781
Carleton Towers	60	1968	642	630
Cedar Glen Apartments	204	1977	647	627
Ellerdale Apartments	154	1975	613	598
Fort Howe Apartments	153	1970	741	724
Parkwood Apartments	205	1947	611	592
Rocky Hill Apartments	42	2004	890	863
Sydney Arms	54	1961	696	665
The Anchorage	51	2003	882	863
Woodward Gardens	99	1962	739	721
<b>Saint John Total</b>	<b>1,143</b>			
<b>Mirimichi</b>				
Edward Court	96	1993	\$623	\$601
<b>New Brunswick Total</b>	<b>3,310</b>			

NEWFOUNDLAND	Units	Year Built	Average Rent	
			Dec-09	Dec-08
<b>St. John's</b>				
Blackshire Court	69	1981	\$695	\$685
Cornwall Manor	31	1976	581	550
Forest Manor	65	1978	622	590
Freshwater Road Apartments	159	1972	620	567
Mount Pleasant Manor	100	1976	589	572
Pleasantview Manor	36	1979	583	544
Torbay Road Apartments	84	1972	595	560
Village Manor	40	1978	615	587
<b>St. John's Total</b>	<b>584</b>			
<b>Grand Falls</b>				
Ridgeview Terrace	59	1975	481	\$492
Terrace Apartments	89	1970/90	705	697
<b>Grand Falls Total</b>	<b>148</b>			
<b>Newfoundland Total</b>	<b>732</b>			
<b>PRINCE EDWARD ISLAND</b>				
PRINCE EDWARD ISLAND	Units	Year Built	Average Rent	
			Dec-09	Dec-08
<b>Charlottetown</b>				
198 Spring Park Road	32	2006	\$998	\$986
27 Longworth Avenue	24	1983	636	601
505-525 University Ave	35	2003	1,037	997
Bridlewood Apartments	66	1999	811	774
Browns Court	52	1997	934	894
Burns/University	95	2003	944	886
Country Place	39	1998-02	828	788
DesBarres House	51	1978	558	542
Horton Park	69	1987	745	704
Kensington Court	105	1990	735	692
Queen Street	48	1978	616	579
Shakespeare	22	2004	810	771
<b>Charlottetown Total</b>	<b>638</b>			
<b>Summerside</b>				
Nevada Court	48	1995	\$705	\$677
<b>Prince Edward Island Total</b>	<b>686</b>			
<b>TOTAL PORTFOLIO</b>	<b>8,957</b>		<b>\$758</b>	<b>\$736</b>

(1) Forest Hills Towers is off-line following a fire in September 2009. Average rents shown for December 31, 2009 represent the average rent in September 2009.

**MHC Portfolio**

	Sites	Acres	Average Rent	
			Dec-09	Dec-08
<b>Ontario</b>				
Bayview Estates	146	60	\$230	\$223
Cedardale <sup>(1)</sup>	204	25	150	159
Domaine Le Village	74	35	265	252
Family Paradise <sup>(1)</sup>	214	50	150	134
Fegushill Estates	152	49	321	312
Golden Horsehoe	267	33	313	302
Green Haven Estates	230	45	299	293
Holiday Harbour <sup>(1)</sup>	143	15	124	142
Holiday Park <sup>(1)</sup>	289	35	137	127
Lakewood Estates	60	13	257	249
Lynnwood Gardens	64	54	289	275
Millcreek	73	35	364	353
Paradise Valley <sup>(1)</sup>	392	109	158	145
Parkside Estates	144	80	299	291
Pine Tree Village	70	38	344	335
Pinehurst Estates	82	16	217	210
Rockdale Ridge	69	96	238	231
Silver Creek Estates	237	80	300	295
Stanley Park	108	76	266	256
Sunny Creek Estates	160	53	185	179
The Village at Listowel	87	53	267	261
Westhill Estates	95	8	272	263
Woodhaven <sup>(1)</sup>	126	50	153	141
<b>Ontario Total</b>	<b>3,486</b>			
<b>Nova Scotia</b>				
Amherst	307	67	\$162	\$151
Birch Hill	217	73	198	201
Birchlee Estates	208	42	203	200
Cairdeil Estates	160	37	165	165
Cowan Place	56	50	163	158
Enfield Estates	56	10	200	200
Fairview Estates	131	131	301	301
Glen Aire Estates	266	130	186	186
Greenhill Estates	107	30	206	200
Heather Estates	217	72	190	190
Kent Drive	50	10	151	139
Maple Ridge Park	160	160	234	234
Mountainview Estates	353	168	205	204
Silver Birch Estates	65	16	181	185
Valley View Hills	195	50	172	171
<b>Nova Scotia Total</b>	<b>2,548</b>			

	Sites	Acres	Average Rent	
			Dec-09	Dec-08
<b>New Brunswick</b>				
Burton	91	32	\$216	\$207
Camper's City <sup>(1)</sup>	224	61	154	125
Crown & Currie Estates	176	140	228	228
Kent & Bayview	148	123	140	140
Park P'Tiso	86	18	152	152
Pine Tree	826	260	239	241
Pine Valley	100	15	200	202
Riverview	109	72	210	210
Tamarak	419	75	227	218
White Frost Estates	211	51	194	193
<b>New Brunswick Total</b>	<b>2,390</b>			
<b>Alberta</b>				
Lynwood Estates	110	18	\$346	\$345
Evergreen Village	73	11	359	341
Hillpark	136	18	329	320
<b>Alberta Total</b>	<b>319</b>			
<b>Saskatchewan</b>				
Sunset Estates	247	77	\$312	\$310
<b>Saskatchewan Total</b>	<b>247</b>			
<b>Newfoundland</b>				
Lakeview Court	86	13	\$158	\$150
Sunset Parkway	84	43	150	150
<b>Newfoundland Total</b>	<b>170</b>			
<b>British Columbia</b>				
The Poplars	130	36	\$364	\$349
<b>British Columbia Total</b>	<b>130</b>			
<b>MHC Total</b>	<b>9,290</b>	<b>3,217</b>	<b>\$221</b>	<b>\$216</b>

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

## Capital Improvements

Killam invests in capital improvements to increase the value of its properties, as required. The amount of capital investment is evaluated on a property by property basis. A summary of the capital expenditures during 2009 and 2008 is included below:

(in thousands)

	2009			2008		
	Apt.	MHC	Total	Apt.	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
	<u>\$7,419</u>	<u>\$2,512</u>	<u>\$9,931</u>	<u>\$8,886</u>	<u>\$2,614</u>	<u>\$11,500</u>

Capital costs for Killam's apartment properties are highest in the first one to three years of ownership as necessary work is completed. After these initial investments, portfolio experience shows that the capital costs per suite decrease considerably. In addition to the timing of ownership, the age of the properties influences the annual capital investment. Killam expects to spend an annual average of \$800 per apartment unit and \$200 per MHC site for properties that the Corporation has owned for over three years. These costs will be influenced by tenant turnover, market conditions, and individual property requirements, causing an annual variability in capital requirements.

### Development and Energy Projects

In addition to capital improvements, investments over the last two years have included \$5.8 million in development projects primarily relating to MHC expansions and \$1.5 million in energy projects, including the installation of solar panels and natural gas conversions.

	2009			2008		
	Apt.	MHC	Total	Apt.	MHC	Total
Development Projects	\$-	\$4,051	\$4,051	\$-	\$1,764	\$1,764
Energy Projects	973	216	\$1,189	233	-	233
	<u>\$973</u>	<u>\$4,267</u>	<u>\$5,240</u>	<u>\$233</u>	<u>\$1,764</u>	<u>\$1,997</u>

## Seasonality of Results

The seasonality of Killam's business is highlighted with operating costs as a percentage of revenue being highest in the first and fourth quarters when heating costs are highest. Killam's third quarter is its most profitable due primarily to lower utility costs. Killam's seven seasonal report communities add to the seasonality of results, as 25% of revenue is earned during the second quarter and 55% is earned during the third quarter. The following table provides selected financial information for the most recent eight quarters.

	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 income (loss)	\$(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

## Strategy and Objectives for Growth

Killam's business objectives are to:

- own a portfolio of multi-family residential real estate properties and MHCs.
- generate positive cash flow, 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 of the Canadian Apartment Market*

Management plans to continue to grow the apartment portfolio through accretive acquisitions, with an increased focus in Ontario. Killam invested \$77.1 million and \$29.2 million in apartment acquisitions during 2007 and 2008, respectively. Killam had a pause in acquisition activity in 2009 in response to the economic slow-down. Management expects to continue to invest in apartment acquisitions in 2010 and beyond, but will be flexible in reaction to market conditions.

Killam's portfolio has been built through the aggregation of many small acquisitions. Management recognizes many benefits in growing this way, including the ability to know specifically what it's buying, and the limited 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. As at the date hereof, 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. Killam's 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 through managing expenses. Improving the profitability of the portfolio is expected to lead to higher valuations for the assets in a stable cap rate environment.

Killam is committed to becoming the best landlord in the business. The Corporation is focused on customer service and providing tenants with good value. A strong and experienced property and resident management team is available to deal with tenants' needs. Capital has been invested in many properties, with the majority of units renovated or updated. This is expected to lead to increased occupancy, increased rents and lower turnover.

#### ***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 Killam's strategy and objectives management will focus on the following:

#### *Consolidation*

Management plans to continue to grow Killam's portfolio through acquisitions, with a primary focus in Ontario and Western Canada. With growing populations and the need for affordable housing alternatives, Killam sees long-term benefits by focusing in these areas.

#### *Expand Killam's Current Portfolio*

Management has identified the potential for an additional 890 sites in the current portfolio and plans 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 opportunity. It is expected that any 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 NOI growth, MHC expansions and new home sales.

## Apartment Market in Atlantic Canada

There are approximately 86,500 rental units in Atlantic Canada. CMHC surveys a sample of the rental units in Canada on a semi-annual basis. This survey includes a detailed analysis of the rental markets of most cities in Canada, including Killam's six core apartment markets. The chart below summarizes key statistics from Killam's core markets as identified in the CMHC reports:

Primary Apartment Markets	Number of Units	Vacancy Rate		Two Bedroom Rent Increases*	
		Oct-09	Oct-08	Oct-09	Oct-08
Halifax	39,584	2.9%	3.4%	2.8%	2.0%
Moncton	9,967	3.8%	2.4%	2.0%	2.2%
Saint John	8,631	3.6%	3.1%	4.2%	4.8%
Fredericton	6,886	2.3%	4.3%	2.6%	0.7%
St. John's	3,601	0.9%	0.8%	4.9%	3.8%
Charlottetown	3,888	3.4%	2.3%	4.6%	3.3%
<b>Total / Weighted Average</b>	<b>72,557</b>	<b>3.0%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>2.4%</b>

\*The percentage change is based on those structures that were common to the survey for both years.

Source: CMHC Fall 2009 Rental Market Reports

Below is a summary of the key qualitative highlights in the CMHC Fall 2009 Rental Market Reports, together with management's views on MHCs in Canada.

### HALIFAX

Vacancy decreased marginally in Halifax Regional Municipality (HRM) in 2009 to 2.9%, from 3.4% in 2008 and 3.1% in 2007. Vacancy rates have remained relatively stable in HRM for the past decade, with a ten-year average vacancy rate of 3.0%. At 2.9% vacancy, HRM is only slightly higher than the national average vacancy rate of 2.8%.

The vacancy rates in HRM vary by submarket, with the lowest vacancy in Peninsula South at 1.3% (unchanged from 2008) and the highest vacancy in Dartmouth North at 5.6% (down from 6.1% at October 2008).

There continues to be new construction in HRM with an average of 585 new rental units added to the supply each year over the last 10 years. In October of 2009 there are approximately 600 new rental units under construction. Demand for rental units in HRM continues to meet the new supply coming into the market.

The average two bedroom rent for all units, including new units increased to \$877 from \$833 in 2008. The increase was 2.8% for structures common to the current and previous years' surveys, compared to increases of 2.0% in both 2008 and 2007. The highest monthly rents are in Peninsula South at \$1,318 at October 2009, compared to the lowest average price in Dartmouth South of \$670 for the same period.

CMHC forecasts that the vacancy in Halifax will increase to 3.2% in 2010, due to the impact of the completion of new rental construction and a stronger economy. CMHC expects to see rents increase between 2% and 2.5% in 2010.

## MONCTON

Moncton experienced an increase in vacancy in 2009 to 3.8% from 2.4% in 2008. Vacancy rates have been less consistent in Moncton than Halifax, with rates of 4.3% in 2007 and 5.6% in 2006. Of the three largest submarkets in Moncton, Dieppe had the lowest vacancy at 2.0%, followed by Riverview, at 3.4% and Moncton at 4.0%.

Economic development in Moncton continues to support a strong job market, resulting in the strongest in-migration in 2009 in New Brunswick during the last ten years; the sustained in-migration in Greater Moncton has increased the demand for rental units, offsetting new construction and attractive home ownership alternatives. This trend slowed in 2009, as a higher than average rental unit completions in Moncton Centre was combined with a decrease in in-migration from the highs experienced in 2008, resulting in an increase in vacancy.

Rents increased an average of 2.0% in Moncton in 2009, where the average two bedroom rent is now \$675 per month. Affordable home ownership in Moncton has limited the ability to increase rents by 2.5% based on units common to both the 2008 and 2009 surveys.

Although construction activity has remained strong for the first part of 2009, apartment starts in Moncton in the last quarter of 2009 were less than a third of the total recorded starts during the same period in 2008. Based on this decline in construction, along with the continued in-migration in to the city, CMHC expects demand for rental housing to remain stable in 2010, with vacancy of between 2.5% and 3.0% by the fall of 2010, and rent increases between 2.0% and 2.8%.

## SAINT JOHN

The CMHC vacancy rate in Saint John increased in the fall of 2009 to 3.6%, up from 3.1% in 2008, and down from 5.2% in 2007. Vacancy rates in Saint John have historically been higher than most Atlantic Canadian cities, with a ten-year average rate of 5.2%. The increase in vacancy this year was attributable to an increase in construction of new rentals, with 2008 marking the highest number of apartment starts recorded in over 20 years. This led to a higher than normal number of new units entering the Saint John market in 2009.

Saint John has experienced an increase in economic activity over the last few years, benefiting from both existing and proposed large scale energy projects. This activity drove a lot of the new construction noted above. Activity slowed in 2009 with some projects delayed or cancelled and others nearing completion.

Saint John experienced a 4.2% increase in rents for two bedroom units in Killam's apartment markets, following a 4.8% increase in 2008. Rental rates in Saint John remain the lowest in Killam's apartment markets, with the average two bedroom rent of \$644, up from \$618 in 2008.

Demand for rental units in Saint John are not expected to increase in 2010, as new construction is expected to continue to add new rental units to the market and in-migration is expected to be minimal as there are no large scale energy projects expected to begin in 2010. CMHC expects vacancy rates to be between 3.6% and 4.0% in 2010, with rents expected to rise at or slightly below inflation.

## FREDERICTON

The vacancy rate in Fredericton decreased to 2.3% in the fall of 2009 from 4.3% in 2008 and 6.5% in 2007. Fredericton was the only city of Killam's New Brunswick markets that experienced a year-over-year decrease in vacancy according to CMHC. Historically high employment levels, due primarily to the strength of the local service and public administration sectors, has supported steady in-migration. Also supporting vacancy improvement was a reduction in new rental construction for three years prior to 2009. Fredericton built ahead of demand in the previous few years, resulting in increased vacancy in 2007. The average rent for a two bedroom unit in Fredericton is \$719, the highest in the province. Average rent for existing two bedroom apartments increased 2.6% in 2009 compared to an average increase of 3.0% for the province of New Brunswick.

## ST. JOHN'S

St. John's experienced its second consecutive year of vacancy under 1%, with October 2009 vacancy of 0.9%, basically unchanged from 0.8% in the same month in 2008. 2008 was St. John's lowest vacancy since 1980. The strong rental market reflects the impact of strong economic activity and employment growth throughout the region. Increased housing prices have led to a growing gap between rental and home ownership causing a challenge for many would be first-time home buyers. Average rent for two-bedroom units increased 4.9% in 2009 for existing structures, the strongest increase in Killam's apartment market. The average rent for a two bedroom unit is \$677. CMHC expects the vacancy levels to remain low at 1.5% for 2010 and rents are expected to increase by 7%, bringing the average rent to \$725 in 2010.

## CHARLOTTETOWN

Vacancy rates in Charlottetown increased to 3.4% from 2.3% in 2008. 2008 had been the first decrease in vacancy in five years, following a strong level of rental construction from 2002 to 2007. This trend was reversed in 2008 with a decrease in construction, driving lower vacancy. Vacancy increased again in 2009 following another increase in multi-residential construction. Prince Edward Island is the only province in Atlantic Canada with rent controls. The approved rental increase for 2009 was 5.0% for heated premises and 3.0% for unheated premises. The average rental increase for two bedroom units realized in 2009, according to CMHC, was 4.6%. The average two bedroom unit rent in Charlottetown is \$701.

## **Manufactured Home Communities in Canada**

Statistics Canada reported that, based on the 2006 Census, there were 163,000 households living in "movable dwellings" in Canada, which includes mobile homes in its definition.

Management believes that there continued to be consolidation opportunities in the MHC space in Canada as a large number of communities are owned and operated by private individuals. MHCs in Canada have historically recorded high occupancy and low resident turnover rates. Barriers to removing a manufactured home from a community are high, typically with the tenant selling their home should the tenant wish to move.

Many MHCs in Canada are home to an older population, appealing to retirees looking for home ownership, single floor living and a community environment. The aging population, and continued need for affordable home alternatives combined with the improved quality

and aesthetics of new manufactured homes is expected to result in continued demand for leased home sites in MHCs.

### **Acquisition and Investment Policy**

To be successful as a fully integrated real estate company and to meet the Corporation's stated business objectives, the Corporation will continue to expand its portfolio of assets through acquisitions. When considering a potential acquisition, management of the Corporation focuses on the anticipated cash flow from the assets to be acquired. Location, demographics and current and future competition are all critical factors in such analysis. The Corporation undertakes thorough due diligence before any property is acquired.

All potential acquisitions are screened initially by management of the Corporation to determine their economic viability. When evaluating potential acquisitions, management considers each property's NOI or potential income and evaluates such projection against a benchmark minimum return on investment. All potential acquisitions exceeding \$2.5 million require the approval of the Board of Directors of the Corporation, and management draws on the expertise and experience of all Board members when evaluating such potential acquisitions, having regard to sound business fundamentals. To date, all acquisitions over \$2.5 million have been approved individually by the Board.

### *APARTMENTS*

The Corporation generally seeks apartment properties that are forty units or larger, but will consider acquiring clusters of smaller properties in one area that are all owned by the same owner. The Corporation will concentrate future acquisitions in neighbourhoods that will allow the Corporation's portfolio to grow while attempting to acquire clusters of buildings within mature suburbs and neighbourhoods.

Killam's portfolio includes a wide variety of buildings:

- Newly constructed buildings in key locations demanding higher than average rents.
- Well maintained high quality buildings, which require less significant capital improvements than neglected and poorly managed properties.
- Well located, established properties in close proximity to existing assets, allowing for maximum economies of scale and neighbourhood market share.
- Some acquisitions included residential properties that were neglected and poorly managed, yet still produced or were capable of producing acceptable NOI. Typically, these properties were owned by: (i) absentee landlords who are not experienced in management of properties or have other full-time jobs; (ii) owners who own single properties and do not have the experience and resources to realize the property's full potential; and (iii) limited partnerships or groups of owners where the corporate structure is failing (i.e., individual owners who want an exit strategy). By completing capital improvements, pursuing good quality tenants, properly managing the property to increase revenues and reducing or maintaining cost levels, the Corporation has been able to improve the profitability of the properties it has acquired.

Management has historically focused Killam's apartment acquisitions in Atlantic Canada, based on management's extensive experience in and knowledge of these markets, the attractive yields available and the opportunity for accretive consolidation.

With an established asset base and operating platform Killam is planning to complete apartment acquisitions outside of Atlantic Canada. Presently, 13% of Killam's NOI from rental operations is generated outside Atlantic Canada through the Company's interest in MHCs in Ontario and Western Canada. This percentage is expected to increase with the acquisition of apartments outside of Atlantic Canada. Management has been active in exploring apartment acquisitions in some Ontario's markets, including Ottawa, the Greater Toronto Area, and the Kitchener/Waterloo area.

#### *New Apartment Development*

Killam is exploring the possibility of developing new multi-family product in select markets where excess land in its existing portfolio exists. Killam is actively pursuing the development of new apartment buildings in Halifax, Fredericton and St. John's.

#### *MANUFACTURED HOME COMMUNITIES*

Killam plans to invest further in MHCs that it believes will provide an opportunity to apply its project management, operating, leasing and financial expertise to obtain superior returns on its investment. The Corporation seeks to invest in MHCs that contain at least 100 sites, or have future expansion opportunities to increase the community to that level. The Corporation will continue to target MHCs in prime locations that offer a lower current yield where, with the implementation of the Corporation's business plan, the long-term value of the selected MHC will be enhanced. MHCs with significant vacant space or rents below existing market rents will continue to be targeted. The Corporation's acquisition strategy is driven by return considerations and opportunities to acquire MHCs at a discount to replacement cost.

#### **Operations**

At December 31, 2009, the Corporation had 365 employees. The employee count fluctuates during the year, with an increased number of staff during the spring and summer months, due primarily to the impact of the seasonal MHCs. The Corporation does not have immediate plans to increase the employee count. The need for recruitment of additional management personnel will be tied to the timing of the acquisition of additional properties.

#### **Competitive Conditions**

The Corporation is competing with individuals, corporations and institutions (both Canadian and foreign) which are presently seeking or which may seek future real property investments similar to those desired by the Corporation. There are a number of pension fund advisors that own multi-family residential properties in these markets, and there are also many publicly-traded real estate companies and real estate investment trusts that own properties or are based in these markets. In addition, all markets have numerous well established local private companies active in the multi-family residential property and MHC markets.

Management of the Corporation believes that the Corporation is well positioned to compete directly with private companies, publicly-traded real estate companies and real estate investment trusts operating in its target market for acquisitions of quality multi-family residential property and MHCs.

## DIVIDENDS

Killam initiated an annualized dividend of \$0.56 per share, paid monthly, in 2007. Killam has maintained its monthly dividend of \$0.046668 per share per month since the dividend was initiated. During 2009 Killam paid the following monthly dividends on its common shares:

Month	Amount (\$)	Annualized (\$)	Record Date	Payment Date
January 2009	0.046668	0.56	January 30, 2009	February 16, 2009
February 2009	0.046668	0.56	February 27, 2009	March 16, 2009
March 2009	0.046668	0.56	March 31, 2009	April 15, 2009
April 2009	0.046668	0.56	April 30, 2009	May 15, 2009
May 2009	0.046668	0.56	May 29, 2009	June 15, 2009
June 2009	0.046668	0.56	June 30, 2009	July 15, 2009
July 2009	0.046668	0.56	July 31, 2009	August 17, 2009
August 2009	0.046668	0.56	August 31, 2009	September 15, 2009
September 2009	0.046668	0.56	September 30, 2009	October 15, 2009
October 2009	0.046668	0.56	October 30, 2009	November 16, 2009
November 2009	0.046668	0.56	November 30, 2009	December 15, 2009
December 2009	0.046668	0.56	December 31, 2009	January 15, 2010

The Corporation is not aware of any restriction that could prevent it from paying dividends, except as noted under the heading "Risk Factors - Availability of Cash Flow".

Killam's Board of Directors reviews the dividend rate on a regular basis with consideration for future cash flows, dividend yield, payout ratios and the need to retain sufficient cash flow to support the Corporation's stability and growth. The Board of Directors has the sole discretion to declare and to adjust or eliminate dividends based on the above factors or other considerations.

### **Dividend Reinvestment Plan**

Effective March 9, 2007, the Corporation adopted a Dividend Reinvestment Plan (the "DRIP Plan") pursuant to which holders of common shares of the Corporation are entitled to elect to have cash dividends of the Corporation reinvested in additional common shares at a price per share calculated by reference to the weighted average trading price of the common shares on the Toronto Stock Exchange for the ten trading days preceding the relevant dividend payment date. Shareholders who so elect are entitled to receive a further distribution equal to 3% of each dividend that was reinvested by them. No brokerage fees or commissions are payable in connection with common shares purchased under the DRIP Plan and all administrative costs are borne by Killam. Additional details and an enrolment form in respect of the DRIP Plan are available on the Corporation's website at [www.killamproperties.com](http://www.killamproperties.com).

## **CAPITAL STRUCTURE OF KILLAM**

Killam is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at December 31, 2009 Killam had 38,518,765 common shares issued and outstanding. There are no preferred shares issued and outstanding. Killam has also issued convertible unsecured debentures and unsecured subordinated debentures as described below.

### **Common Shares**

The common shares are entitled to notice of and to attend and vote at all meetings of shareholders, to receive any dividend declared by the Corporation, to receive the remaining property of the Corporation upon dissolution of the Corporation and to the rights, privileges and restrictions normally attached to common shares.

### **Preferred Shares**

Preferred shares may from time to time be issued in one or more series, and the directors may fix from time to time before each such series is issued, the number of preferred shares which are to comprise each series and the designation, rights, privileges, restrictions and conditions attaching to each series including any voting rights attached thereto, the rate or amount of dividends, the terms and conditions of redemption, purchase or conversion and any sinking fund or other provisions. The preferred shares shall rank in priority to all voting and non-voting common shares with respect to a distribution of assets upon the liquidation, dissolution or winding-up of the Corporation. The preferred shares shall share rateably in all cumulative dividends or returns on capital which are not paid in full.

### **Convertible Debentures**

In April 2005, Killam completed the issuance of \$42.2 convertible unsecured debentures (the "Convertible Debentures"). The 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. A copy of the trust indenture is accessible in the investor relations section of the Killam's website at [www.killamproperties.com](http://www.killamproperties.com).

### **Subordinated Debentures**

During 2006, Killam issued \$20.0 million of Subordinated Debentures and warrants, including \$5.0 million issued in January 2006, \$5.0 million issued in March 2006 and \$10.0 million issued in April 2006. The Subordinated Debentures bear interest at 5.92%, 6.06% and 6.33%, respectively. The associated warrants are exercisable at \$14.40, \$15.20 and \$12.24 per share, respectively. All debentures expire in January of 2013.

During December 2009 Killam repurchased and retired \$10.0 million of the \$20.0 million subordinated debentures (one half of each tranche). The entire balance of warrants remain outstanding.

### **Normal Course Issuer Bid**

In August 2009, the Corporation 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 common shares acquired are cancelled. For the year ended December 31, 2009, 53,600 common shares were purchased and cancelled. The shares were purchased at an average price of \$5.28 per share. The aggregate cost of the common shares purchased and cancelled in the year was \$0.3 million, of which \$0.2 million was recorded as a charge against share capital for the average carrying value of the common shares and the remainder to contributed surplus.

## **MARKET FOR SECURITIES**

### ***Common Shares***

The Corporation's common shares are listed and posted for trading on the TSX under the trading symbol "KMP". The following table summarizes the trading activity for the common shares for 2009:

<b>Month</b>	<b>High \$</b>	<b>Low \$</b>	<b>Volume</b>
January	5.50	4.53	660,578
February	5.76	5.10	347,228
March	5.30	4.55	759,187
April	5.40	4.84	1,135,653
May	5.93	5.13	1,512,449
June	6.53	5.70	2,721,873
July	6.70	5.76	1,893,431
August	7.05	6.51	1,298,642
September	7.00	6.60	1,482,621
October	7.40	6.70	1,853,900
November	8.25	7.11	1,575,060
December	9.50	8.05	1,734,993

### **Convertible Debentures**

The Convertible Debentures are listed and posted for trading on the TSX under the trading symbol "TSX.DB". The following table summarizes the trading activity for the Convertible Debentures for 2009:

<b>Month</b>	<b>High \$</b>	<b>Low \$</b>	<b>Volume</b>
January	90.90	75.10	48,000
February	94.85	85.00	39,000
March	90.00	82.75	2,665,000
April	95.00	87.25	2,301,000
May	96.00	91.00	1,928,000
June	95.00	91.00	3,993,000
July	97.00	94.25	2,278,000
August	101.00	97.00	723,000
September	100.95	99.50	214,000
October	102.00	100.00	468,000
November	103.00	100.00	1,105,000
December	105.00	101.50	224,000

## DIRECTORS AND OFFICERS

### **Directors**

The name, municipality of residence and principal occupation of each of the directors of Killam, as of March 9, 2010, are as set forth in the table below. The term of office of each of the directors of the Corporation noted below will expire at the next annual meeting of the Corporation's shareholders.

<b>Directors of Killam</b> (Name and municipality of residence)	<b>Director Since</b>	<b>Principal Occupation</b>
Timothy R. Banks <sup>(2)</sup> <i>Charlottetown, Prince Edward Island</i>	2000	President and CEO, APM Group of Companies (construction and design-build company)
Philip D. Fraser <sup>(4)</sup> <i>Halifax, Nova Scotia</i>	2000	President and Chief Executive Officer, Killam Properties Inc.
Robert G. Kay <sup>(1)</sup> <i>Moncton, New Brunswick</i>	2002	Chairman, Springwall Group International and Springwall Sleep Products Inc. (mattress manufacturing company)
James C. Lawley <sup>(1) (3)</sup> <i>Halifax, Nova Scotia</i>	2000	General Manager, Scotia Fuels Ltd. (residential fuel oil supplier)
Arthur G. Lloyd <i>Calgary, Alberta</i>	2000	Corporate Director
George J. Reti <sup>(2) (3)</sup> <i>Calgary, Alberta</i>	2002	Corporate Director, Chairman of the Board, Killam Properties Inc.
Robert G. Richardson <sup>(4)</sup> <i>Halifax, Nova Scotia</i>	2000	Executive Vice President and Chief Financial Officer, Killam Properties Inc. and President , Compass Commercial Realty Limited
Manfred J. Walt <sup>(2) (5)</sup> <i>Toronto, Ontario</i>	2007	President and Chief Executive Officer, Walt & Co. Inc. (private investment and management company)
G. Wayne Watson <sup>(1) (3)</sup> <i>Halifax, Nova Scotia</i>	2000	Corporate Director

**Notes:**

- (1) These persons are members of the Audit Committee.
- (2) These persons are members of the Compensation Committee.
- (3) These persons are members of the Corporate Governance, Nomination and Succession Committee.
- (4) These persons are members of the Acquisition and Finance Committee.
- (5) Mr. Walt was a director of Oxford Automotive Inc., a private company which in January of 2002 commenced a pre-packaged Chapter 11 bankruptcy filing in conjunction with a financial recapitalization as a result of a severe downturn in production volumes in the North American auto parts industry. Oxford Automotive Inc. emerged from Chapter 11 in June of 2002, and Mr. Walt resigned from its board in November of 2003.

All of the directors of Killam have held the principal occupations described above, or other positions with the same, predecessor or associated firms, for the past five years, with the exception of Mr. Watson, who from 2002 to 2007, was Vice President of Finance for CanJam Trading Limited.

### **Executive Officers**

The name, municipality of residence and principal occupation of each of the officers of Killam, as of March 9, 2010, are as set forth in the table below.

<b>Executives of Killam</b> (Name and municipality of residence)	<b>Position Held</b>
Philip Fraser <i>Halifax, Nova Scotia</i>	President and Chief Executive Officer
Robert Richardson <i>Halifax, Nova Scotia</i>	Executive Vice President and Chief Financial Officer
Ruth Buckle-McIntosh <i>Halifax, Nova Scotia</i>	Vice President, Property Management
Pamela Crowell <i>Halifax, Nova Scotia</i>	Vice President, Property Management (MHCs)
Keith Foster <i>Halifax, Nova Scotia</i>	Vice President, Finance
Jeremy Jackson <i>Halifax, Nova Scotia</i>	Vice President, Marketing
Michael McLean <i>Halifax, Nova Scotia</i>	Vice President, Development
Ronald Barron <i>Calgary, Alberta</i>	Corporate Secretary Partner, Bennett Jones LLP

All of the executive officers have held their present positions with Killam during the past five years, with the exceptions of: Ms. Crowell, who prior to December 2005 was Vice President, Real Estate Operations for Pacrim Developments Inc., Mr. Jackson, who prior to joining Killam in November 2005, was General Sales Manager – National Accounts for Aliant Inc. from January 2001 to December 2003, and Mr. McLean, who prior to May 2008 held the position of Director of Acquisitions and Technology at Killam Properties Inc.

The directors and executive officers of Killam as a group beneficially own, directly or indirectly, or exercise control or direction over 2,534,524 common shares, representing approximately 6.6% of the outstanding common shares as of March 5, 2010.

## CONFLICTS OF INTEREST

There are potential conflicts of interest to which some of the directors and officers of the Corporation may be subject in connection with its operations. Conflicts of interest, if any, will be subject to and governed by the procedures and remedies set forth in the *Canada Business Corporations Act*.

## RISK FACTORS

**In evaluating the Corporation and its business, the following risk factors should be considered in addition to the other information outlined in this AIF.**

### **Real Estate Industry**

The Corporation is a real estate company. All real estate investments are subject to varying degrees of risk depending on the nature of the property in question. The value of such investments is subject to changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as the over supply of a real estate product or a reduction in demand for real estate in any particular area), attractiveness of the properties to buyers, competition from others with similar developments and the ability of the owner to provide adequate maintenance on such properties at an economic cost. The Corporation may be unable to obtain financing to maintain what, in management's view, is an appropriate capital structure. There is no certainty that financing will be available upon the maturity of any existing mortgage at interest rates equal to or lower than the interest rate payable under an expiring mortgage, or at all.

Certain significant expenditures, including maintenance costs, mortgage payments, insurance costs and related property taxes, must be made regardless of whether or not the property held by the Corporation is producing sufficient income to service such expenses. The properties that the Corporation has acquired are subject to mortgages which require debt service payments. If the Corporation is unable or unwilling to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its right of foreclosure or power of sale, as applicable. In addition, interest rates are subject to fluctuations and may affect the viability of a particular project.

Real estate by its very nature is relatively illiquid. Such illiquidity will tend to limit the Corporation's ability to adjust its portfolio in response to changing economic or investment conditions. Financial difficulties of other property owners which results in distress sales could depress real estate values in the markets in which the Corporation plans to operate. If the Corporation was required to liquidate its assets, there is a risk that the Corporation would realize sale proceeds of less than the current book value of the properties that have been or are to be acquired by the Corporation.

The real estate industry is significantly affected by fluctuations in the cost of construction and servicing of land. Any material increase in construction and/or servicing costs may have a material adverse effect on the Corporation.

If the Corporation defaults in the repayment of any secured indebtedness, secured creditors will be entitled to exercise available legal remedies against the Corporation including recourse against specific properties.

## **Interest Risk**

The Corporation may be unable to obtain financing to maintain what, in management's view, is an appropriate capital structure. There is no certainty that financing will be available upon the maturity of any existing mortgage at interest rates equal to or lower than the interest rate payable under an expiring mortgage, or at all.

## **Financing**

Killam has outstanding indebtedness in the form of mortgages, credit facilities, debentures and convertible debentures and, as such, is subject to risks associated with debt financing, including the risk that the Corporation may be unable to make interest or principal payments or meet loan covenants. A portion of the cash flow generated from operations will be devoted to servicing debt, and there can be no assurance that the Corporation's internally generated cash flow will be sufficient to satisfy its required interest and principal payments.

As at March 9, 2010, no mortgage or vender debt has floating interest rates. The Corporation's operating and acquisition facilities are subject to floating interest rates and, accordingly, changes in short-term borrowing rates will impact the Corporation's cost of borrowing from these facilities.

## **Zoning and Approval**

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

## **General Economic Conditions**

The value of real property and any improvements thereto may depend on the strength of the residential real estate market in the Corporation's target markets. The Corporation's projected income would be adversely affected if there was a marked increase in the current vacancy rates or decrease in the market rental rates for multi-family residential properties in the target markets or if the Corporation was unable to continue to lease a significant amount of available space in its properties on economically favourable lease terms. In the event of default by a tenant, the Corporation may experience delays in enforcing its rights as lessor and may incur costs in protecting its investment. The failure by the Corporation to rent unleased space on a timely basis, or at all, would likely have an adverse effect on the Corporation's financial condition.

## **Rent Control**

The Corporation is subject to provincial legislation in certain of its identified target markets which may restrict the ability of a landlord to increase rents charged to tenants under periodic leases. As a result, no assurances can be given that the Corporation will be able to adjust the rents charged to tenants as management may otherwise see fit. The inability to increase rents to reflect market conditions may have an adverse effect on the Corporation's financial condition. Currently, Prince Edward Island, Ontario and British Columbia are the only provinces in which the Corporation operates that have rent controls.

### **Dependence on Key Personnel**

The success of the Corporation will be largely dependent upon the quality of its management and personnel. Loss of the services of such persons, or the inability to attract personnel of equal ability, could materially adversely affect the Corporation's business operations and prospects. The Corporation has not purchased "key man" insurance on any of its directors, officers or key employees, but is currently exploring the purchase of such insurance in 2009.

### **Cyclical Nature of Revenue**

The Corporation's business is cyclical in nature. Because the Corporation is dependent on rental income for a substantial portion of its revenue, the Corporation's operating results are sensitive to prevailing economic conditions, including changes in regional and national economic conditions, particularly as they may affect rental rates in properties it owns. The Corporation's operating results in individual markets could be adversely affected by local or regional economic downturns which could have a material adverse effect on the business, financial condition and results of operations of the Corporation.

### **Competition for Real Property Investments**

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

### **Competition for Tenants**

Competition for tenants is strong. Numerous other residential developers and apartment owners compete in seeking tenants. The existence of competing developers, managers and owners and competition for the Corporation's tenants could have an adverse effect on Killam's ability to lease suites, which could adversely impact revenue and earnings.

### **Future Acquisitions of Real Property Investments**

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

### **Environmental Liabilities**

Under various federal and provincial environmental laws and regulations, a current or previous owner or operator of real property may be held liable for the costs of removal or remediation of certain hazardous or toxic substances including, without limitation, asbestos-containing materials and oil related items that could be located on, in or under such property. Such laws and regulations often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances. The costs of any

required remediation or removal of these substances could be material. The liability of an owner or operator is generally not limited under such laws and regulations and could exceed a property's value or even the value of the total assets of the owner or operator. The presence of these substances or failure to remediate such substances properly may also have an adverse effect on an owner or operator's ability to sell or rent a property, or to borrow money using the property as collateral. In connection with the ownership or operation of its properties, the Corporation could be liable for such type of costs as well as for certain other costs, including governmental fines and damages for injuries caused to persons or properties. As a result, the presence, with or without the Corporation's knowledge, of hazardous or toxic substances at any property held or operated by the Corporation could have a material adverse effect on the Corporation's business and its results of operations.

### **Need for Further Financings**

The Corporation will require additional financing to implement its business plan. The ability of the Corporation to arrange such financing in the future will depend in part upon prevailing capital market conditions as well as the business performance of the Corporation. There can be no assurance that the Corporation will be successful in its efforts to arrange additional financing on satisfactory terms. If additional financing is raised by the issuance of shares from treasury of the Corporation, control of the Corporation may change and shareholders may suffer additional dilution. If the Corporation is unable to successfully secure adequate or satisfactory financing as required, the Corporation's ability to implement its business plan could be seriously and adversely affected.

### **Management of Growth**

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to deal with this growth could have a material adverse impact on its business, operations and prospects.

### **General Uninsured Losses**

The Corporation carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as war or environmental contamination) that are either uninsurable or not economically insurable. The Corporation has insurance for earthquake risk, subject to certain policy limits. Should an uninsured or underinsured loss occur, the Corporation could lose its investment in, and anticipated profits and cash flow from, one or more of its properties, and would continue to be obligated to repay any recourse mortgage loans on such properties.

### **Availability of Cash Flow**

Dividend payments may exceed actual cash available from time to time because of items such as principal repayments and 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.

### **Market for Securities and Price Volatility**

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

### **TRANSFER AGENTS AND REGISTRARS**

The registrar and transfer agent of the Corporation is Computershare Investor Services Inc., 1969 Upper Water Street, Suite 2008, Halifax, Nova Scotia, Canada, B3J 3R7.

### **INTERESTS OF EXPERTS**

Ernst & Young LLP has prepared the auditors' report on the consolidated financial statements of the Corporation for the year ended December 31, 2009. Ernst & Young LLP is independent in accordance with the auditor's rules of professional conduct in Canada.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as otherwise described herein, there is no material interest, direct or indirect, of any director or executive officer of the Corporation, any direct or indirect shareholder of the Corporation who beneficially owns, or who exercises control or direction over, more than 10 percent of the outstanding common shares of the Corporation or any known associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect the Corporation.

### **MATERIAL CONTRACTS**

There are no contracts, other than contracts entered into in the ordinary course of business, that are material to Killam that were entered into within the most recently completed financial year, or that were entered into before the most recently completed financial year but are still in effect.

### **AUDIT COMMITTEE INFORMATION**

#### **Audit Committee Mandate**

The Corporation's Audit Committee mandate sets out the committee's purpose, organization, duties and responsibilities. A copy of the mandate is attached hereto as Appendix "A".

## **Composition of Audit Committee**

The Corporation's Audit Committee is comprised of Wayne Watson, James Lawley and Robert Kay, all of whom are financially literate and independent, as such terms are defined in National Instrument 52-110 – *Audit Committees* ("NI 52-110").

## **Relevant Education and Experience**

### ***Wayne Watson, C.A.***

Wayne Watson has over thirty years experience in finance, taxation and operations management. He recently retired from his position of Vice President Finance of CanJam Trading Limited, a leading saltfish producer and international trading house located in Nova Scotia. Prior to joining CanJam, he was the Vice President Finance and CFO of Fortis Inc., a TSX-listed company with investments in electric utilities, commercial real estate and hotels. From 1988 to 1992, Wayne was the Vice President Finance and CFO for Comstock Canada, an electrical and mechanical contractor with offices across Canada. He was also a partner with Thorne Ernst & Whinney Chartered Accountants - now part of KPMG - where he received his CA designation in 1976.

### ***James Lawley***

Mr. Lawley has been the General Manager of Scotia Fuels Ltd., a residential fuel oil supplier based in Halifax, Nova Scotia, since June 1992 and co-owner and officer of Camp Bonaventure Ltd. since 1994. Mr. Lawley is also involved in the commercial and residential real estate industry as the President of Halkirk Properties Inc. and Saltergate Developments Inc. In these roles, Mr. Lawley has acquired significant experience and exposure to accounting and financial reporting issues. Mr. Lawley received a Bachelor of Commerce degree from Dalhousie University (Honors Degree in Finance) in 1982.

### ***Robert Kay***

Mr. Kay has been involved with Springwall Group International and Springwall Sleep Products Inc., one of Canada's largest mattress manufacturers, since 1964 and has been Chairman of these companies since 1995. In these roles, Mr. Kay has acquired significant experience and exposure to accounting and financial reporting issues. Mr. Kay received a Business Administration degree from Mount Allison University in 1954.

## **Pre-Approval Policies and Procedures**

The Corporation's Audit Committee mandate requires the Audit Committee to pre-approve all non-audit services to be provided to the Corporation, provided that the Audit Committee may satisfy the pre-approval requirement by establishing specific policies and procedures concerning the performance of non-audit services, which policies and procedures are to be reviewed annually.

## **External Audit Fees by Category**

Ernst & Young LLP has served as the Corporation's external auditor since its formation in 2000. The following table lists the fees paid to Ernst & Young LLP, by category, for the last two fiscal years.

	<i>Year Ended</i>	
	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Audit fees	\$127,500	\$127,500
Audit-related fees	89,500	45,000
Tax fees	14,042	6,160
All other fees	-	5,700
<b>Total Fees</b>	<b>\$231,042</b>	<b>\$184,360</b>

### ***Audit Fees***

Audit fees were paid for professional services rendered by the auditors for the audit of the Corporation's annual financial statements or services provided in connection with statutory and regulatory filings or engagements.

### ***Audit-Related Fees***

Audit-related fees consist of assurance and related services that are reasonably related to the performance of the audit or review of the annual and interim financial statements and are not reported under the audit fees item above. The nature of the services comprising the fees are quarterly review engagements and prospectus filings.

### ***Tax Fees***

Tax fees were paid for professional services relating to tax compliance, tax advice and tax planning. These services consisted of tax compliance including the review of original and amended tax returns, tax planning and advisory services relating to common forms of taxation including income tax, large corporation tax, goods and services tax, and sales tax.

### ***All Other Fees***

The nature of the services comprising the fees are assistance with accounting and disclosure issues.

## **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Killam securities, and options to purchase securities, is contained in the Corporation's information circular for its most recent annual meeting of shareholders. Additional financial information is contained in Killam's comparative financial statements and management's discussion and analysis for the year ended December 31, 2009. Additional information relating to Killam may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **APPENDIX "A"**

### **KILLAM PROPERTIES INC.**

#### **AUDIT COMMITTEE MANDATE**

##### **I. Audit Committee Purpose**

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

- Identify and monitor the management of the principal risks that could impact the financial reporting of Killam Properties Inc. (the "Company" or "Killam").
- Monitor the integrity of the Company's financial reporting process and system of internal controls regarding financial reporting and accounting compliance.
- Monitor the independence and performance of Killam's external auditors.
- Provide an avenue of communication among the external auditors, management, and the Board of Directors.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the external auditors as well as anyone in the organization. The Audit Committee has the ability to retain, at the Company's expense, special legal, accounting or other consultants or experts it deems necessary in the performance of its duties.

##### **II. Audit Committee Composition and Meetings**

- Audit Committee members shall meet the requirements of the Canada Business Corporations Act, the TSX and applicable securities regulations.
- The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent directors as defined in Multilateral Instrument 52-110 – Audit Committees.
- All members of the Committee shall be financially literate, being defined as able to read and understand a set of financial statements which present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements, and at least one member of the Committee shall have accounting or related financial management expertise.
- Committee members are encouraged to enhance their familiarity with finance and accounting by participating in seminars, conferences, roundtables and other educational programs conducted by the Company or outside organizations.
- Audit Committee members shall be appointed by the Board on recommendation from the nominating process. If an Audit Committee chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

- The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting.
- The Committee shall meet privately at least annually with management and the external auditors to discuss any matters that the Committee or each of these groups believes should be discussed.
- In addition, the Committee will consider with management and the external auditors the need or requirement for the external auditors to review the Company's interim financial statements.

### **III. Audit Committee Responsibilities and Duties**

#### ***Review Procedures***

1. Review and assess the adequacy of the mandate at least annually and submit the mandate to the Board of Directors for approval.
2. Review the Company's annual audited financial statements, management's discussion and analysis and related documents (i.e. Annual Information Form, Information Circular, Annual Report and earnings press releases) prior to filing or distribution and make appropriate recommendations to the Board of Directors. Review shall include discussion with management and external auditors of significant issues regarding accounting principles, practices and significant management estimates and judgments.
3. Annually, in consultation with management and external auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the external auditors together with management responses.
4. Review the effectiveness of the overall process for identifying the principle risks affecting financial reporting and provide the Committee's view to the Board of Directors.
5. Review with financial management and the external auditors as required the Company's quarterly financial results, management's discussion and analysis, interim earnings press releases and related documents prior to the release of earnings and/or the Company's quarterly financial statements prior to filing or distribution. Discuss any significant changes to the Company's accounting principles.
6. Review policies and practices concerning officers' expenses and perquisites.

#### ***External Auditors***

1. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the external auditors or approve the discharge of auditors when circumstances warrant.
2. Approve fees and other significant compensation to be paid to the external auditors.

3. On an annual basis, the Committee will review and discuss with the external auditors all significant relationships they have with the Company that could impair the auditors' independence.
4. Review the external auditors' audit plan – discuss and approve audit scope, staffing, reliance upon management and general audit approach.
5. Prior to releasing the year-end results, discuss the results of the audit with the external auditors including certain matters required to be communicated to audit committees in accordance with the standards established by the CICA.
6. Consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in the Company's financial reporting.

#### ***Non-Audit Services***

1. The Committee shall be responsible for reviewing and pre-approving all non-audit services to be provided by the external auditor.
2. The Committee shall be permitted to establish specific policies and procedures concerning the performance of non audit services which are to be reviewed annually.

#### ***Other Audit Committee Responsibilities***

1. The Committee shall be responsible for reviewing and approving Killam's hiring policy concerning partners or employees, as well as former partners and employees of the present or former external auditors.
2. The Committee shall ensure that procedures are in place relating to the receipt and treatment of complaints which may be received concerning accounting, internal controls or auditing matters. In addition, the Committee shall ensure procedures are in place concerning the confidential, anonymous submissions of concerns by Killam's employees relating to these matters.
3. Review and approve management's decision related to the need for internal auditing.
4. On at least an annual basis, review with the Company's counsel any legal matters that could have a significant impact on the Company's financial statements, the Company's compliance with applicable laws and regulations and inquiries received from regulators or government agencies.
5. Annually assess the effectiveness of the Committee against its Mandate and report the results to the Board of Directors.
6. Prepare and disclose a summary of the Mandate to the shareholders.

#### ***Administrative Matters***

1. A quorum of the Audit Committee shall be the attendance of two (2) members thereof. No business may be transacted by the Audit Committee except at a meeting of its members at which a quorum of the Audit Committee is present or by a resolution in writing signed by all members of the Committee.
2. Any member of the Audit Committee may be removed or replaced at any time by resolution of the directors of the Corporation. If and whenever a vacancy shall exist on

the Audit committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, each member of the Audit Committee shall hold such office until the close of the annual meeting of the shareholders next following the date of appointment as a member of the Audit Committee or until a successor is duly appointed.

3. The Audit Committee may invite such officers, directors and employees of the Corporation or affiliates as it may see fit from time to time to attend at meetings of the Audit Committee and to assist thereat in the discussion of matters being considered by the Audit Committee. The external auditor is to appear before the Audit Committee when requested to do so by the Audit Committee.
4. The Audit Committee, having regard to the by-laws of the Corporation, shall determine the time and place for Audit Committee meetings, the calling and the procedure at such meetings.
5. Notice of all meetings of the Audit Committee shall be given to the external auditor and the external auditor shall be entitled to attend and be heard at each Audit Committee meeting. The external auditor must attend every meeting of the Audit Committee that is specially requested to attend by a member of the Audit Committee. Upon the request of the external auditor or any member of the Audit Committee, the Audit Committee shall convene a meeting of the Audit Committee to consider any matters that should be brought to the attention of the directors of the Corporation.
6. The Audit Committee shall report to the directors of the Corporation on such matters and questions relating to the financial position of the Corporation or any affiliates of the Corporation as the directors of the Corporation may from time to time refer of the Audit Committee.
7. The members of the Audit Committee shall, for the purpose of performing their duties, have the right to inspect all the books and the records of the Corporation and its affiliates, and to discuss such books and records that are in any way related to the financial position of the Corporation with its officers, employees and external auditor of the Corporation and its affiliates.
8. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.