

Management's Discussion and Analysis

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

Killam spent \$1,482 per unit for the year ended December 31, 2013, compared to \$1,683 per unit for the year ended December 31, 2012. Approximately 40% of the capital spend during the year was invested in suite renovations. The increase year-over-year was a result of unit upgrades to improve quality and increase occupancy, increase yields on properties identified for repositioning, and support the Company's commitment to increasing unit quality to maximize rental increases.

As an example, in 2013 the Company has been actively working to reposition Brentwood Apartments, a 45-year old, 240-unit, property located in Halifax, that was acquired in 2012. The Company identified that significant value could be created at this property by improving the quality of the units and generating increased NOI through higher rents. Unit upgrades have averaged \$15,000 per unit and have consisted of new appliances, flooring and kitchen and bathroom upgrades. The Company has achieved a corresponding lift in rents of approximately 15% on the 53 units it has completed to date. Based on a 5-year project timeline, with 20% of the units renovated each year, the Company expects to see the return on the total investment improve 145 bps from 6.25% to 7.70%.

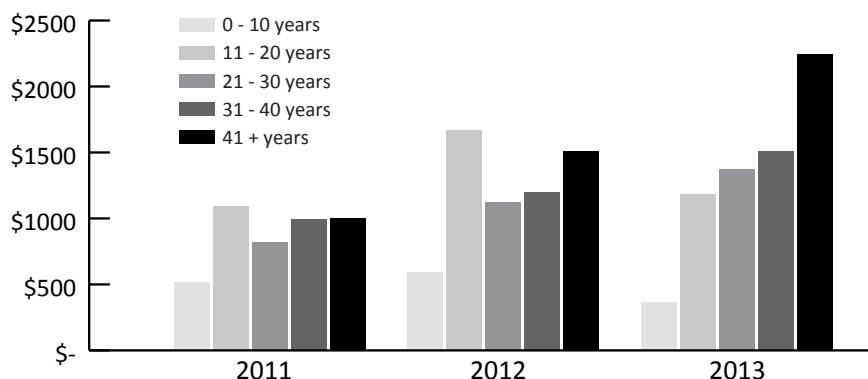
Killam has also invested in suite renovations to reposition an Ottawa portfolio acquired in 2012. Kitchen, bathroom, flooring and appliance upgrades have improved the quality of the Ottawa units, leading to a 1,100 bps increase in occupancy in the past 12 months. Excluding the repositioning of the Brentwood and the Ottawa portfolio in 2013, suite renovation costs would have been \$6.0 million, or a 21% increase from 2012.

The Company has also identified additional properties in the Atlantic region as well as Ontario for repositioning and will continue to invest in upgrades where these higher yields can be achieved. One such property identified for 2014 is Shaunslieve, the 154-unit property adjacent to S2 in Halifax. Killam expects to recover the renovation costs through increased rental rates. Capital spend on appliances increased in 2013 as well, which was directly correlated to the increased suite renovation work.

Boiler and heating equipment costs have decreased significantly in 2013, as the Company converted twenty properties to natural gas in 2012, compared to one in 2013.

The majority of the remaining capital expenditures during 2013 related to exterior building repairs, including roofing and balcony upgrades, brick replacement and exterior facade upgrades. The timing of capital spending is influenced by tenant turnover, market conditions, and individual property requirements, causing variability. In addition, the length of time that Killam has owned a property and the age of the property also influences the capital requirements.

Average Capital Spend Per Unit by Building Age



As the above chart highlights, the capital spend per unit is less for newer properties, averaging \$364 per unit in 2013, compared to \$2,248 per unit for buildings over 40 years old. This analysis excludes capital spending on development and energy projects. Killam's continual focus on developing and acquiring new properties aids in maintaining lower capital requirements on a per unit basis. 20% of Killam's apartments as of December 31, 2013, have been built in the past ten years.

Killam expects to invest approximately \$22 million to \$24 million during 2014 on apartment portfolio capital investments.