Q3-2020 Management's Discussion and Analysis

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

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PART I

Business Overview

Killam Apartment REIT ("Killam", the "Trust", or the "REIT"), based in Halifax, Nova Scotia ("NS"), is one of Canada's largest residential landlords, owning, operating, managing and developing a $3.6 billion portfolio of apartments, manufactured home communities ("MHCs") and commercial properties across seven provinces. Killam was founded in 2000 to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam entered the Ontario ("ON") apartment market in 2010, the Alberta ("AB") apartment market in 2014, and the British Columbia ("BC") apartment market in 2020. Killam broke ground on its first development in 2010 and has completed eleven projects to date, with a further six projects currently under construction.

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

1) Increase earnings from the existing portfolio;

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

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

The apartment business is Killam's largest segment and accounted for 88.4% of Killam's net operating income ("NOI") for the nine months ended September 30, 2020. As at September 30, 2020, Killam's apartment portfolio consisted of 16,701 units, including 968 units jointly owned with institutional partners. Killam's 203 apartment properties are located in Atlantic Canada's six largest urban centres (Halifax, Moncton, Saint John, Fredericton, Charlottetown and St. John's), Ontario (Ottawa, London, Toronto and Kitchener-Waterloo-Cambridge), Alberta (Edmonton and Calgary), and British Columbia (Greater Victoria). Killam is Atlantic Canada's largest residential landlord, owning a 13% total share of multi-family rental units in its core markets. Killam plans to continue increasing its presence outside Atlantic Canada through acquisitions and developments; however, it will continue to invest strategically in Atlantic Canada to maintain its market presence.

In addition, Killam owns 5,875 sites in 39 MHCs, also known as land-lease communities or trailer parks, in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting these communities and leases sites to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 7.0% of Killam's NOI for the nine months ended September 30, 2020. Killam also owns 749,661 square feet (SF) of commercial space that accounted for 4.6% of Killam's NOI for the nine months ended September 30, 2020.

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the condensed consolidated interim financial statements and pertains to known risks and uncertainties. This MD&A should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2019 and 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with Killam's 2019 Annual Information Form, are available on SEDAR at www.sedar.com.

The discussions in this MD&A are based on information available as at November 4, 2020. This MD&A has been reviewed and approved by Management and the REIT's Board of Trustees.

Declaration of Trust

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

Investment Guidelines

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

Operating Policies

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

As at September 30, 2020, Killam was in compliance with all investment guidelines and operating policies.

Forward-looking Statements

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

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

Non-IFRS Financial Measures

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

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, interest expense related to lease liabilities, insurance proceeds, and non-controlling interest. FFO are calculated in accordance with the REALpac definition, except for the adjustment of insurance proceeds as REALpac does not address this adjustment. A reconciliation between net income and FFO is included on page 24.
- Adjusted funds from operations ("AFFO"), and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less an allowance for maintenance capital expenditures ("capex") (a three-year rolling historical average capital spend to maintain and sustain Killam's properties), commercial leasing costs and straight-line commercial rents. AFFO are calculated in accordance with the REALpac definition. Management considers AFFO an earnings metric. A reconciliation from FFO to AFFO is included on page 25.
- Adjusted cash flow from operations ("ACFO") is calculated by Killam as cash flow provided by operating activities with adjustments for changes in working capital that are not indicative of sustainable cash available for distribution, maintenance capital expenditures, commercial leasing costs, amortization of deferred financing costs and non-controlling interest. Management considers ACFO a measure of sustainable cash flow. A reconciliation from cash provided by operating activities to ACFO is included on page 26. ACFO is calculated in accordance with the REALpac definition.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") is calculated by Killam as income before fair value adjustments, gains (losses) on disposition, income taxes, interest, depreciation and amortization.
- Interest coverage is calculated by dividing EBITDA by interest expense, less interest expense related to exchangeable units.
- Debt service coverage is calculated by dividing EBITDA by interest expense, less interest expense related to exchangeable units, and principal mortgage repayments.
- Debt to normalized EBITDA is calculated by dividing interest-bearing debt (net of cash) by EBITDA that has been adjusted for a full year of stabilized earnings from recently completed acquisitions and developments.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties that Killam has owned for equivalent periods in 2020 and 2019. Same property results represent 87.8% of the fair value of Killam's investment property portfolio as at September 30, 2020. Excluded from same property results in 2020 are acquisitions, dispositions and developments completed in 2019 and 2020, non-stabilized commercial properties linked to development projects, and other adjustments to normalize for revenue or expense items that relate to prior periods or are not operational.

PART II

Key Performance Indicators

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

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

Financial and Operational Highlights

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

	Three months ended September 30,			Nine months ended September 30,		
Operating Performance	**2020**	2019	Change [(2)]	**2020**	2019	Change [(2)]
Property revenue	**$66,653**	$63,020	5.8%	**$194,846**	$178,914	8.9%
Net operating income	**$43,397**	$41,349	5.0%	**$122,962**	$112,404	9.4%
Net income	**$37,465**	$46,839	(20.0)%	**$97,476**	$156,719	(37.8)%
FFO [(1)]	**$28,512**	$26,247	8.6%	**$78,142**	$68,888	13.4%
FFO per unit – diluted [(1)]	**$0.27**	$0.27	—%	**$0.75**	$0.73	2.7%
AFFO [(1)]	**$24,099**	$21,967	9.7%	**$64,805**	$56,086	15.5%
AFFO per unit – diluted [(1)]	**$0.23**	$0.23	—%	**$0.63**	$0.59	6.8%
Weighted average number of units outstanding – diluted (000s)	**105,691**	96,044	10.0%	**103,564**	94,612	9.5%
Distributions paid per unit [(3)]	**$0.17**	$0.17	3.0%	**$0.51**	$0.49	3.1%
AFFO payout ratio – diluted [(1)]	**75%**	72%	300 bps	**82%**	83%	(100) bps
AFFO payout ratio – rolling 12 months [(1)]	**81%**	84%	(300) bps			
Portfolio Performance						
Same property NOI [(1)]	**$38,928**	$38,788	0.4%	**$110,498**	$107,500	2.8%
Same property NOI margin	**65.9%**	66.3%	(40) bps	**63.6%**	63.1%	50 bps
Same property apartment occupancy	**96.6%**	97.3%	(70) bps			
Same property apartment weighted average rental increase [(4)]	**3.1%**	3.4%	(30) bps			

As at	**September 30, 2020**	December 31, 2019	Change [(2)]
Leverage Ratios and Metrics			
Debt to total assets	**43.8%**	43.4%	40 bps
Weighted average mortgage interest rate	**2.77%**	2.90%	(13) bps
Weighted average years to debt maturity	**4.5**	4.5	—
Debt to normalized EBITDA [(1)]	**10.32x**	10.15x	1.7%
Debt service coverage [(1)]	**1.59x**	1.57x	1.3%
Interest coverage [(1)]	**3.34x**	3.20x	4.4%

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

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

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

(4) Year-over-year, as at September 30.

Summary of Q3-2020 Results and Operations

Strengthened Balance Sheet
Killam strengthened its balance sheet during Q3 with the successful completion of a $69.0 million equity raise in July. Following the raise, Killam repaid the outstanding balance on its line of credit and expects to use the remaining capital to fund its acquisition and development programs. Killam ended the quarter with increased capital flexibility, including acquisition capacity of over $230 million and a strong balance sheet with debt to total assets of 43.8%, a 150 bps improvement from June 30, 2020.

Positive Same Property NOI Growth Despite Challenges with COVID-19
Killam achieved 0.4% same property NOI growth during the quarter, with apartments up 1.1% offsetting a 5.9% decline from the MHC portfolio. Overall, same property revenues were up 1.0% and expenses were up 2.3%. The impacts of COVID-19 were felt in the quarter with reduced activity at Killam’s nine seasonal MHCs, reduced commercial rent following participation in the Canadian Emergency Commercial Rent Assistance (CECRA) program, delayed apartment rent increases following rent increase suspensions implemented during Q2, combined with salary increases for front-line workers.

Rental Rate Growth Continues on Turns
Same property rental rates were up 3.1% as at September 30, 2020, versus September 30, 2019. Despite the current economic environment, demand remains strong for units on turnover with Killam achieving 5.2% rental rate growth on regular unit turns during Q3-2020. Rental rate growth was the primary contributor to apartment revenue growth of 1.8% for the quarter. These gains were partially offset by an uptick in vacancy, most notably in downtown Calgary, Kanata (Ottawa) and St. John's. Edmonton, Halifax and New Brunswick had the strongest apartment performance, achieving quarter-over-quarter same property apartment revenue increases of 5.8%, 2.7% and 2.6%, respectively.

Repositioning Program Continues to Generate Above-average Returns
During Q3-2020, Killam invested $3.6 million in repositionings, completing 151 unit renovations. Year-to-date, Killam has repositioned 426 units. The average return on investment ("ROI") on unit repositionings completed during the quarter was 12.0%, based on an average renovation cost of $25,500 per unit. Repositioned units completed year-to-date are expected to generate approximately $1.3 million in additional NOI on an annualized basis and approximately $26.4 million in Net Asset Value ("NAV") growth.

FFO and AFFO per Unit in Line with Q3-2019
Killam generated FFO per unit of $0.27, consistent with Q3-2019. FFO was $28.5 million in Q3-2020, an 8.6% increase over Q3-2019. FFO growth was attributable to lower financing costs, incremental contributions from recent acquisitions and completed developments, and increased NOI from its same property portfolio. This growth was offset by a 10.0% increase in the weighted average number of units outstanding from an aggregate of $183.4 million in equity issued in July 2020 and November 2019.

Refinancing at Low Rates Contributed to Earnings Growth
Killam benefited from lower interest rates on mortgages refinanced in Q3-2020. During the quarter, Killam refinanced $59.7 million of maturing mortgages with $86.5 million of new debt at a weighted average interest rate of 1.42%, 104 bps lower than the weighted average rate of the maturing debt.

Substantial Development Activity Underway
Killam continues to advance its development pipeline, investing $34.5 million during Q3-2020. Highlights in the quarter include: 1) reaching 97% completion on the Shorefront development (tenants started moving in during October); 2) starting construction and drilling for the geothermal system at the 169-unit, Civic 66 development in Kitchener, and 3) acquiring a 50% interest in a parcel of land for development from RioCan REIT to jointly develop a 168-unit apartment building adjacent to the grocery-anchored Elmvale Acres Shopping Centre in Ottawa.

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

COVID-19 Update

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

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

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

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

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

Killam’s rent collection experience in Q3-2020 remained strong. During the three months ended September 30, 2020, and for the month of October, Killam has collected the following contractual rents:

% Collected(1)	Q3-2020	Oct-2020
Apartments	99.9%	99.5%
MHCs	99.2%	98.5%
Commercial	95.6%	95.2%
Total (weighted average)	99.7%	99.1%

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

Consistent with provincial directives, Killam worked with tenants who were financially impacted by COVID-19 during the quarter. Historically, Killam has had less than 0.4% of revenue uncollected, and management does not expect a material increase in rental defaults for the remainder of 2020. Killam offered a rent deferral program to assist residential tenants facing financial hardship due to COVID-19, working with residents on a case-by-case basis.

Killam also worked closely with commercial tenants under the CECRA program. Killam's commercial tenant base makes up a relatively small portion of Killam's overall business, with the commercial portfolio accounting for approximately 6.0% of total revenues and 4.6% of Killam's total NOI for the nine months ended September 30, 2020. Killam filed CECRA applications for approximately 40 commercial tenants and recorded a reduction in commercial revenue of $0.1 million during Q2-2020 and $0.1 million during Q3-2020 related to the program.

Outlook

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

Continued Expansion of Suite Repositioning Program
Management is committed to its repositioning program. Following the success of 2020's program of 500 suite renovations, management expects to expand the program further in 2021, targeting up to 600 repositions. In addition, Killam is improving efficiencies and targeting improved performance metrics in the year ahead, including the percentage of repositionings completed in 28 days. Suite repositionings represent unit upgrades above $10,000. Killam targets an ROI of at least 10% and monthly rental rate increases of 10%–30% upon completion of the renovation. A review of Killam's portfolio has identified a minimum of 5,000 units having repositioning potential.

Investments in Energy Efficiency Programs to Reduce CO_2 Emissions and Offset Rising Operating Costs
Investments in energy and water-saving initiatives, and operational efficiencies, are expected to continue to reduce Killam's energy consumption and offset rising operating costs, including property taxes and insurance. Killam has invested $14.4 million to reduce the carbon footprint of its buildings through the installation of low-flow water fixtures, boiler, ventilation and cooling system upgrades, and the retrofit of temperature control and lighting systems over the last four years. Killam has expanded its operations team to bring energy specialists in house to optimize this capital investment. Management is planning investments of $5.8 million on new efficiency projects 2021, including increased investment in solar panels. These projects should contribute to same property NOI growth by lowering consumption and improve Killam's sustainability.

Interest Expense Savings on Refinancings
Killam's mortgage financings and renewals have progressed on schedule in 2020, in terms of both timing and upfinancing opportunities. Killam does not expect refinancing challenges with its upcoming mortgage maturities. Looking forward, with $142.6 million in mortgages maturing in 2021, management expects to upfinance approximately $50.0 million of cash and, based on current interest rates, reduce its overall weighted average interest rate.

Growth through Accretive Developments
Development remains an important component of Killam's growth strategy. Killam currently has six developments underway for a total of 601 apartment units at a total cost of approximately $245.4 million and an expected weighted average yield of approximately 5.0%. The majority of the capital required for these developments is being funded through construction loans. In addition, Killam has a 10% interest in an active 233-unit development project in Calgary (Nolan Hill). Killam has committed to acquire the remaining 90% interest in the Nolan Hill development early in 2021, which will add an additional 233 units to the portfolio. The completion and stabilization of these projects are expected to contribute positively to Killam's future FFO per unit growth.

Well-positioned for Acquisitions
Following the recently completed $69.0 million equity raise, Killam ended Q3-2020 with acquisition capacity exceeding $230 million. Following the closing of $127.6 million in pending acquisitions already disclosed, including two assets in Moncton and the remaining 90% interest in Nolan Hill, management expects its acquisition capacity to remain at over $100 million. Management remains focused on growing its portfolio in Ontario and Western Canada and is actively looking for acquisition opportunities in these markets.

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

PART III

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolios by market as at September 30, 2020:

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia				
Halifax	5,814	65	$41,899	34.1%
Sydney	139	2	$1,019	0.8%
	5,953	67	$42,918	34.9%
New Brunswick				
Moncton	1,804	34	$9,055	7.5%
Fredericton	1,529	23	$8,668	7.0%
Saint John	1,202	14	$4,877	4.0%
Miramichi	96	1	$485	0.4%
	4,631	72	$23,085	18.9%
Ontario				
Ottawa	1,216	9	$7,984	6.5%
London	523	5	$4,053	3.3%
Cambridge-GTA	818	6	$8,255	6.7%
	2,557	20	$20,292	16.5%
Newfoundland & Labrador				
St. John's	915	12	$4,794	3.9%
Grand Falls	148	2	$488	0.3%
	1,063	14	$5,282	4.2%
Prince Edward Island				
Charlottetown	986	19	$5,322	4.3%
Summerside	86	2	$461	0.4%
	1,072	21	$5,783	4.7%
Alberta				
Calgary	531	3	$4,024	3.3%
Edmonton	579	4	$4,631	3.8%
	1,110	7	$8,655	7.1%
British Columbia				
Victoria	315	2	$2,609	2.1%
Total Apartments	**16,701**	**203**	**$108,624**	**88.4%**
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia	2,749	17	$3,610	2.9%
Ontario	2,284	17	$4,559	3.7%
New Brunswick (4)	672	3	$187	0.2%
Newfoundland & Labrador	170	2	$275	0.2%
Total MHCs	**5,875**	**39**	**$8,631**	**7.0%**
Commercial Portfolio (3)				
	Square Footage (5)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Prince Edward Island	191,511	1	$964	0.7%
Ontario	306,106	1	$3,323	2.7%
Nova Scotia	218,829	5	$1,080	0.9%
New Brunswick	33,215	1	$340	0.3%
Total Commercial	**749,661**	**8**	**$5,707**	**4.6%**
Total Portfolio		**250**	**$122,962**	**100.0%**

(1) Unit count includes the total unit count of properties held through Killam's joint arrangements. Killam has a 50% ownership interest in two apartment properties in Ontario, representing a proportionate ownership of 484 units of the 968 units in these properties. Killam manages the operations of all the co-owned apartment properties.
(2) For the nine months ended September 30, 2020.
(3) Killam also has 171,782 square feet of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.
(4) Killam's New Brunswick MHC communities have seasonal operations, which typically commence in mid-May.
(5) Represents Killam's ownership, which includes a 50% interest in commercial properties located in Nova Scotia and Prince Edward Island, managed by the co-owners.

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

PART IV

Q3-2020 Financial Overview

Consolidated Results

For the three months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$66,653**	$63,020	5.8%	**$59,089**	$58,493	1.0%	**$7,564**	$4,527	67.1%
Property operating expenses									
General operating expenses	**10,574**	9,910	6.7%	**9,104**	9,005	1.1%	**1,470**	905	62.4%
Utility and fuel expenses	**4,602**	4,381	5.0%	**4,071**	4,050	0.5%	**531**	331	60.4%
Property taxes	**8,080**	7,380	9.5%	**6,986**	6,650	5.1%	**1,094**	730	49.9%
Total operating expenses	**$23,256**	$21,671	7.3%	**$20,161**	$19,705	2.3%	**$3,095**	$1,966	57.4%
NOI	**$43,397**	$41,349	5.0%	**$38,928**	$38,788	0.4%	**$4,469**	$2,561	74.5%
Operating margin %	**65.1%**	65.6%	(50) bps	**65.9%**	66.3%	(40) bps	**59.1%**	56.6%	250 bps

For the nine months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$194,846**	$178,914	8.9%	**$173,606**	$170,359	1.9%	**$21,240**	$8,555	148.3%
Property operating expenses									
General operating expenses	**30,091**	27,091	11.1%	**26,046**	25,580	1.8%	**4,045**	1,511	167.7%
Utility and fuel expenses	**17,848**	18,154	(1.7)%	**16,207**	17,350	(6.6)%	**1,641**	804	104.1%
Property taxes	**23,945**	21,265	12.6%	**20,855**	19,929	4.6%	**3,090**	1,336	131.3%
Total operating expenses	**$71,884**	$66,510	8.1%	**$63,108**	$62,859	0.4%	**$8,776**	$3,651	140.4%
NOI	**$122,962**	$112,404	9.4%	**$110,498**	$107,500	2.8%	**$12,464**	$4,904	154.2%
Operating margin %	**63.1%**	62.8%	30 bps	**63.6%**	63.1%	50 bps	**58.7%**	57.3%	140 bps

The resiliency of Killam's portfolio drove same property NOI growth in Q3-2020 and year-to-date. This strength, along with contributions from acquisitions and developments, resulted in 5.0% and 9.4% NOI growth for the three and nine months ended September 30, 2020.

Same property results included properties owned during comparable 2020 and 2019 periods and represent 87.8% of the fair value of Killam's investment property portfolio as at September 30, 2020. Non-same property results include acquisitions, dispositions and developments completed in 2019 and 2020 and commercial assets acquired for future residential development.

Same property revenue grew by 1.0% and 1.9% for three and nine months ended September 30, 2020, as compared to the same periods of 2019. Same property revenue growth in Q3-2020 was lower than recent quarters due to the impact of COVID-19, including decreased revenue at Killam's seasonal MHC resorts as a result of delayed spring openings and lower transient revenue, lower rental rate increases on renewals, and participation in the CECRA program for commercial tenants. Despite these short-term pandemic related impacts, the strength of rental rate growth on unit turns and continued strength in Killam's core markets still generated overall same property revenue growth.

Total same property operating expenses increased 2.3% and 0.4% for the three and nine months ended September 30, 2020. The increase during the quarter was largely driven by a 5.1% increase in property taxes as a result of higher assessments, which Killam actively appeals whenever possible, as well as a small increase in general operating, utility and fuel expenses. Year to date, the slight increase in same property operating expenses was due to higher property taxes and general operating expenses, largely offset by a 6.6% decrease in utility and fuel expenses as a result of reduced consumption from energy efficiency projects, decreases in natural gas pricing across Killam's three largest regions and a decrease in the inclusion of unit electricity as part of the monthly rent. Overall, same property NOI grew by 0.4% and 2.8% for the three and nine months ended September 30, 2020.

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

Apartment Results

For the three months ended September 30,

	Total			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$57,244**	$53,795	6.4%	**$51,778**	$50,854	1.8%	**$5,466**	$2,941	85.9%
Property operating expenses									
General operating expenses	**8,579**	7,973	7.6%	**7,793**	7,500	3.9%	**786**	473	66.2%
Utility and fuel expenses	**3,896**	3,773	3.3%	**3,602**	3,620	(0.5)%	**294**	153	92.2%
Property taxes	**7,004**	6,447	8.6%	**6,351**	6,063	4.8%	**653**	384	70.1%
Total operating expenses	**$19,479**	$18,193	7.1%	**$17,746**	$17,183	3.3%	**$1,733**	$1,010	71.6%
NOI	**$37,765**	$35,602	6.1%	**$34,032**	$33,671	1.1%	**$3,733**	$1,931	93.3%
Operating margin %	**66.0%**	66.2%	(20) bps	**65.7%**	66.2%	(50) bps	**68.3%**	65.7%	(260) bps

For the nine months ended September 30,

	Total			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$169,891**	$155,890	9.0%	**$154,758**	$151,009	2.5%	**$15,133**	$4,881	210.0%
Property operating expenses									
General operating expenses	**24,656**	21,998	12.1%	**22,634**	21,618	4.7%	**2,022**	380	432.1%
Utility and fuel expenses	**15,872**	16,478	(3.7)%	**14,976**	16,148	(7.3)%	**896**	330	171.5%
Property taxes	**20,739**	18,597	11.5%	**18,920**	18,120	4.4%	**1,819**	477	281.3%
Total operating expenses	**$61,267**	$57,073	7.3%	**$56,530**	$55,886	1.2%	**$4,737**	$1,187	299.1%
NOI	**$108,624**	$98,817	9.9%	**$98,228**	$95,123	3.3%	**$10,396**	$3,694	181.4%
Operating margin %	**63.9%**	63.4%	50 bps	**63.5%**	63.0%	50 bps	**68.7%**	75.7%	(700) bps

Apartment Revenue

Total apartment revenue for the three and nine months ended September 30, 2020, was $57.2 million and $169.9 million, an increase of 6.4% and 9.0%, over the same periods of 2019. Revenue growth was augmented by contributions from recently acquired and developed properties and higher rental rates.

Same property apartment revenue increased 1.8% and 2.5% for the three and nine months ended September 30, 2020, driven by increased rental rates, partially offset by a 70 bps decrease in occupancy. Killam's tenant base includes a diverse mix of tenants, including young professionals, seniors, empty nesters, families, and students. Since the onset of COVID-19, Killam has experienced relatively stable occupancy in most of its markets, however has seen increased vacancy in St. John's, Newfoundland, Kanata (Ottawa) and downtown Calgary.

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

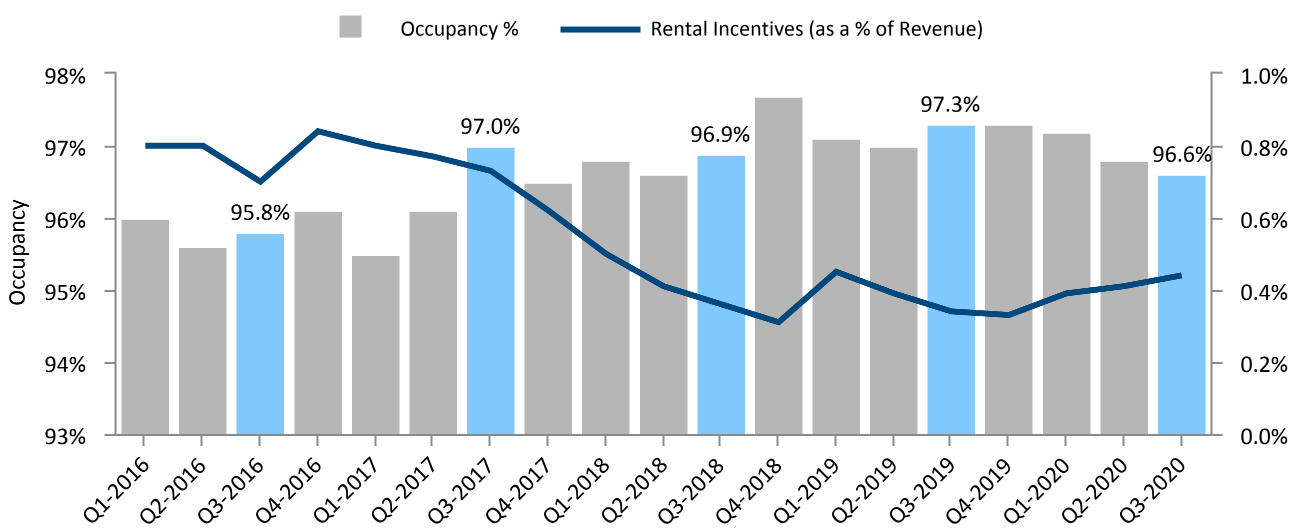
Apartment Occupancy Analysis by Core Market (% of Residential Rent) (1)

		Total Occupancy			Same Property Occupancy		
For the three months ended September 30,	# of Units	**2020**	2019	Change (bps)	**2020**	2019	Change (bps)
Nova Scotia							
Halifax	5,814	**97.6%**	98.3%	(70)	**97.6%**	98.3%	(70)
Ontario							
Ottawa (2)	1,216	**94.9%**	90.3%	460	**94.6%**	97.8%	(320)
London	523	**97.2%**	98.3%	(110)	**97.2%**	98.3%	(110)
Cambridge-GTA	818	**98.1%**	98.4%	(30)	**98.4%**	98.4%	—
New Brunswick							
Moncton	1,804	**97.9%**	98.4%	(50)	**97.9%**	98.5%	(60)
Fredericton	1,529	**97.0%**	97.0%	—	**97.0%**	96.8%	20
Saint John	1,202	**96.5%**	96.9%	(40)	**96.5%**	96.9%	(40)
Newfoundland and Labrador							
St. John's	915	**86.8%**	92.4%	(560)	**86.7%**	92.4%	(570)
Prince Edward Island							
Charlottetown	986	**99.2%**	99.6%	(40)	**99.2%**	99.5%	(30)
Alberta							
Calgary	531	**93.9%**	94.7%	(80)	**95.5%**	93.9%	160
Edmonton	579	**95.0%**	88.4%	660	**95.9%**	88.4%	750
British Columbia							
Victoria	315	**94.2%**	N/A	N/A	**N/A**	N/A	N/A
Other Atlantic	469	**93.4%**	96.6%	(320)	**93.4%**	96.6%	(320)
Total Apartments (weighted average)	**16,701**	**96.5%**	96.7%	(20)	**96.6%**	97.3%	(70)

(1) Occupancy as a percentage of residential rent is calculated as vacancy (in dollars) divided by gross potential residential rent (in dollars) for the period.
(2) Same property occupancy in Ottawa is down quarter-over-quarter as a result of vacancy at Killam's Kanata properties, related to new product delivered to the market in the area during Q4-2019.

For discussion on changes in occupancy levels during the quarter, refer to page 16 of this MD&A under section "Apartment Same Property NOI by Region".

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



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

Average Rent Analysis by Core Market

As at September 30,

		Average Rent (1)			Same Property Average Rent (1)		
	# of Units	**2020**	2019	% Change	**2020**	2019	% Change
Nova Scotia							
Halifax	5,814	**$1,174**	$1,131	3.8%	**$1,174**	$1,130	3.9%
Ontario							
Ottawa	1,216	**$1,776**	$1,737	2.2%	**$1,740**	$1,692	2.8%
London	523	**$1,346**	$1,304	3.2%	**$1,346**	$1,304	3.2%
Cambridge-GTA	818	**$1,527**	$1,474	3.6%	**$1,541**	$1,486	3.7%
New Brunswick							
Moncton	1,804	**$947**	$910	4.1%	**$915**	$886	3.3%
Fredericton	1,529	**$1,046**	$1,011	3.5%	**$1,028**	$992	3.6%
Saint John	1,202	**$865**	$836	3.5%	**$865**	$836	3.5%
Newfoundland and Labrador							
St. John's	915	**$1,005**	$987	1.8%	**$1,005**	$987	1.8%
Prince Edward Island							
Charlottetown	986	**$1,020**	$1,008	1.2%	**$1,020**	$1,008	1.2%
Alberta							
Calgary	531	**$1,259**	$1,236	1.9%	**$1,284**	$1,260	1.9%
Edmonton	579	**$1,474**	$1,452	1.5%	**$1,440**	$1,452	(0.8)%
British Columbia							
Victoria	315	**$1,725**	N/A	N/A	**N/A**	N/A	N/A
Other Atlantic	469	**$920**	$907	1.4%	**$920**	$907	1.4%
Total Apartments (weighted average)	**16,701**	**$1,162**	$1,114	4.3%	**$1,138**	$1,104	3.1%

(1) Killam's average rent growth as at September 30, 2020 compared to September 30, 2019 represents rent charged to tenants, net of COVID related adjustments.

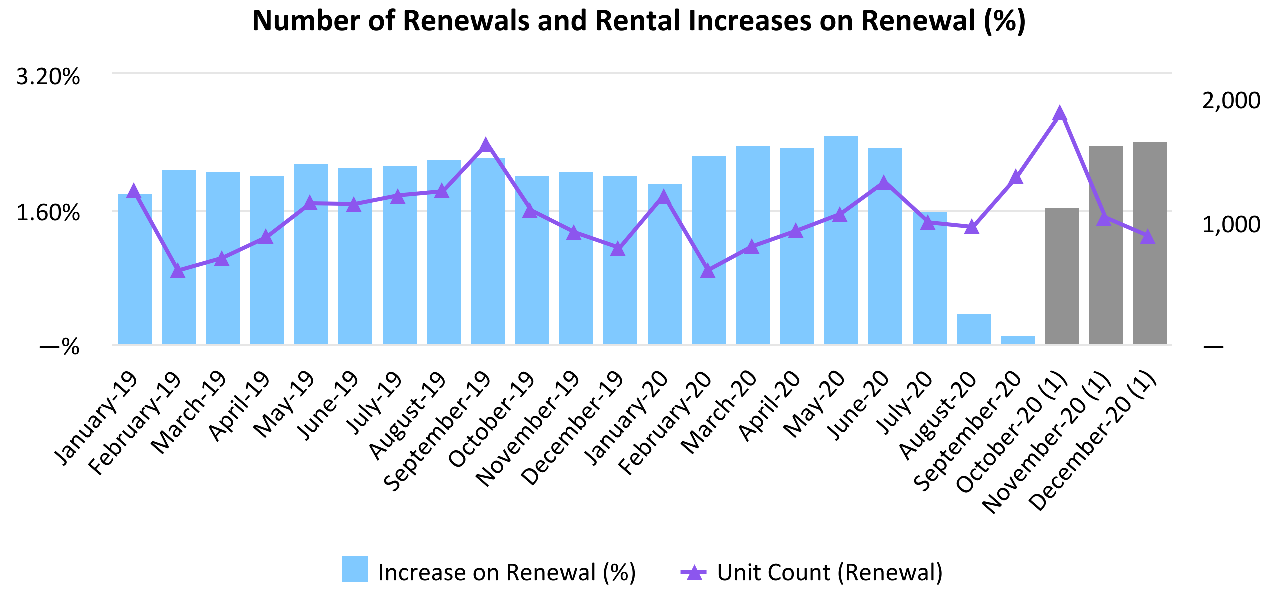
Same Property Rental Increases – Tenant Renewals versus Unit Turns

Killam turns approximately 30% to 32% of its units each year, with the trend declining in recent years, including 2020, where turnover levels are down 250 bps year-to-date and forecasted to be approximately 28% to 30% annualized. Upon turn, Killam will typically generate rental increases by moving rental rates to market and, where market demand exists, by upgrading units for unlevered returns of 10%–15% on capital invested. During the first nine months of 2020, Killam saw a 30 bps decline in its same property weighted average rental rate increases, to 3.1%, compared to 3.4% for the same period of 2019 driven by lower rental increases on lease renewals as noted in the chart below.

	For the three months ended September 30,				For the nine months ended September 30,			
	2020		**2019**		**2020**		**2019**	
	Rental Increases	Turnovers & Renewals (1)	Rental Increases	Turnovers & Renewals (1)	Rental Increases	Turnovers & Renewals (1)	Rental Increases	Turnovers & Renewals (1)
Lease renewal	**0.6%**	**70.4%**	2.2%	72.2%	**1.7%**	**76.2%**	2.1%	73.5%
Unit turn – regular	**5.2%**	**26.1%**	5.8%	25.7%	**5.6%**	**20.8%**	5.7%	24.7%
Unit turn – repositioned	**27.7%**	**3.5%**	27.7%	2.0%	**28.2%**	**3.0%**	28.9%	1.8%
Rental increase (weighted avg)	**2.8%**		3.4%		**3.1%**		3.4%	

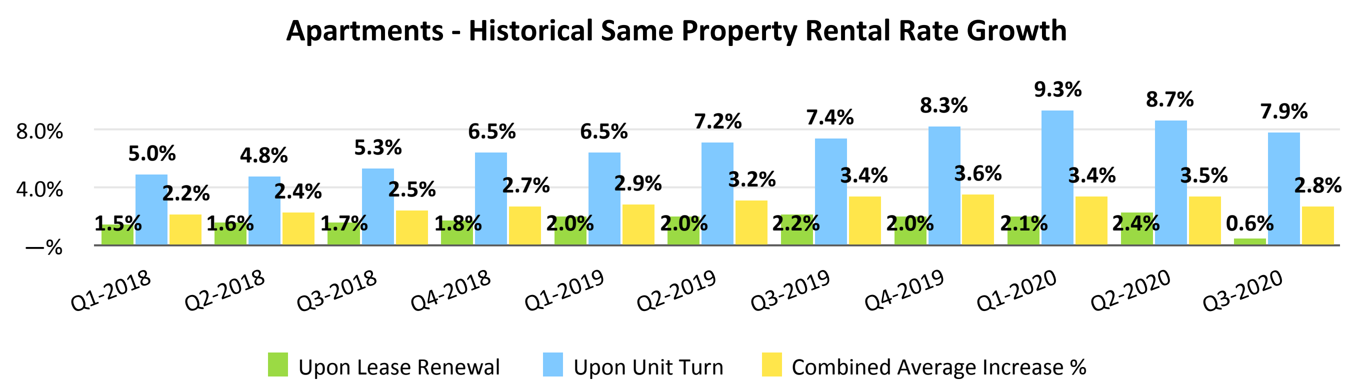
(1) The percentage of total units renewed and turned during the three and nine months ended September 30, 2020, was 29.8% and 74.9% (September 30, 2019 - 35.1% and 82.5%).

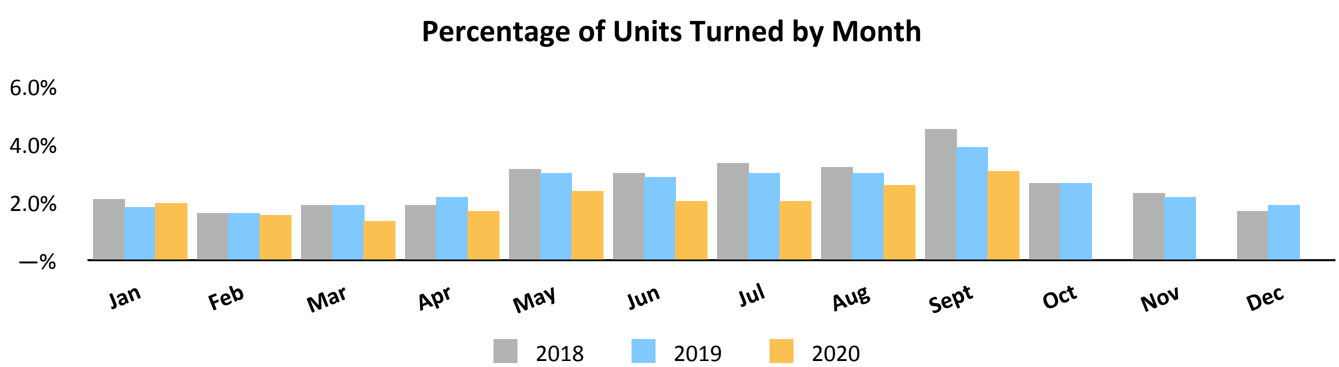
Due to the economic uncertainty facing many Canadians during the emergency measures associated with the pandemic, Killam waived the collection of rental increases from April to July 2020 for lease renewals with increases being reinstated beginning in August or September for most properties. Killam also delayed distribution of rental increase notices to tenants between March and May 2020. As the required notice period to increase rents is a minimum of three months in most provinces across Canada, Killam will not begin collecting rental increases pertaining to these notices until Q4-2020. Management expects to see an uptick in rental increases on lease renewals in Q4-2020, as illustrated in the graph below, when the rental increase notices issued in Q3 are applicable.



(1) Represents estimated average rental increases for tenants for Q4-2020.

The following two charts summarize the weighted-average rental rate increases achieved by quarter since 2017 on lease turns including repositions and renewals as well as the percentage of units turned by month over the past three years.





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

Apartment Expenses

Total operating expenses for the three and nine months ended September 30, 2020, were $19.5 million and $61.3 million, a 7.1% and 7.3% increase over the same periods of 2019, due primarily to incremental costs associated with recent acquisitions and developments, property taxes and general operating expense increases. Although Killam's apartment operating margin decreased by 20 bps quarter-over-quarter, the year-to-date operating margin increased 50 bps, as lower utility costs and revenue optimization more than offset incremental operating costs.

Total apartment same property operating expenses for the three and nine months ended September 30, 2020, were 3.3% and 1.2% higher than the same periods of 2019. The increase was driven by increased wages for front-line staff, higher insurance premiums, and property tax expense increases of 4.8% and 4.4%, over the same periods of 2019. These increases were partially offset by decreased utility costs of 0.5% and 7.3% for the three and nine months ended September 30, 2020. These savings are attributable to lower natural gas pricing and consumption savings as a result of energy-efficiency initiatives and lower unit electricity costs.

Apartment Utility and Fuel Expenses – Same Property

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
Natural gas	**$564**	$615	(8.3)%	**$4,629**	$5,601	(17.4)%
Electricity	**1,475**	1,502	(1.8)%	**5,456**	5,653	(3.5)%
Water	**1,448**	1,344	7.7%	**4,120**	3,846	7.1%
Oil & propane	**105**	145	(27.6)%	**730**	1,004	(27.3)%
Other	**10**	14	(28.6)%	**41**	44	(6.8)%
Total utility and fuel expenses	**$3,602**	$3,620	(0.5)%	**$14,976**	$16,148	(7.3)%

Killam's apartments are heated with natural gas (58%), electricity (33%), oil (5%), steam (2%), geothermal (2%) and propane (less than 1%). Electricity costs relate primarily to common areas, as unit electricity costs are typically paid by tenants, reducing Killam's exposure to the majority of Killam's 5,000 apartments heated with electricity. Fuel costs associated with central natural gas or oil-fired heating plants are paid by Killam.

Utility and fuel expenses accounted for approximately 20% and 26% of Killam's total apartment same property operating expenses for the three and nine months ended September 30, 2020. Total same property utility and fuel expenses decreased 0.5% and 7.3% for the three and nine months ended September 30, 2020.

Same property natural gas expense decreased by 8.3% and 17.4% for the three and nine months ended September 30, 2020. The significant decrease in natural gas expense was primarily attributable to decreases in commodity prices in Ontario and Nova Scotia of 25% and 23%, as well as a reduction in both delivery charges and commodity price in New Brunswick, resulting in an 18% decline in that province year-to-date. Increased efficiencies from boiler upgrades also contributed to reduced consumption levels.

Electricity costs were 1.8% and 3.5% lower for the three and nine months ended September 30, 2020, primarily due to consumption savings from LED lighting retrofits and a reduction of unit electricity being included as part of a tenant's monthly rent in certain regions given strong market fundamentals, more than offsetting rising rates.

Water expense increased by 7.7% and 7.1% for the three and nine months ended September 30, 2020, the large increase is primarily due to increased consumption as a result of tenants being at home more during the COVID-19 pandemic.

Heating oil and propane costs decreased by 27.6% and 27.3% for the three and nine months ended September 30, 2020, compared to the same periods of 2019, as a result of decreases in oil prices.

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

Apartment Same Property NOI by Region

Three months ended September 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Nova Scotia									
Halifax	**$20,524**	$19,979	2.7%	**($6,411)**	($6,291)	1.9%	**$14,113**	$13,688	3.1%
	20,524	19,979	2.7%	**(6,411)**	(6,291)	1.9%	**14,113**	13,688	3.1%
Ontario									
Ottawa	**3,228**	3,268	(1.2)%	**(1,045)**	(1,023)	2.2%	**2,183**	2,245	(2.8)%
London	**2,066**	2,021	2.2%	**(661)**	(651)	1.5%	**1,405**	1,370	2.6%
Cambridge-GTA	**3,675**	3,569	3.0%	**(1,223)**	(1,114)	9.8%	**2,452**	2,455	(0.1)%
	8,969	8,858	1.3%	**(2,929)**	(2,788)	5.1%	**6,040**	6,070	(0.5)%
New Brunswick									
Moncton	**4,638**	4,562	1.7%	**(1,896)**	(1,867)	1.6%	**2,742**	2,695	1.7%
Fredericton	**4,424**	4,258	3.9%	**(1,728)**	(1,632)	5.9%	**2,696**	2,626	2.7%
Saint John	**3,102**	3,032	2.3%	**(1,337)**	(1,290)	3.6%	**1,765**	1,742	1.3%
	12,164	11,852	2.6%	**(4,961)**	(4,789)	3.6%	**7,203**	7,063	2.0%
Newfoundland & Labrador									
St. John's	**2,421**	2,536	(4.5)%	**(791)**	(751)	5.3%	**1,630**	1,785	(8.7)%
	2,421	2,536	(4.5)%	**(791)**	(751)	5.3%	**1,630**	1,785	(8.7)%
Prince Edward Island									
Charlottetown	**2,976**	2,949	0.9%	**(1,098)**	(1,074)	2.2%	**1,878**	1,875	0.2%
	2,976	2,949	0.9%	**(1,098)**	(1,074)	2.2%	**1,878**	1,875	0.2%
Alberta									
Calgary	**1,437**	1,470	(2.2)%	**(469)**	(428)	9.6%	**968**	1,042	(7.1)%
Edmonton	**1,987**	1,878	5.8%	**(640)**	(597)	7.2%	**1,347**	1,281	5.2%
	3,424	3,348	2.3%	**(1,109)**	(1,025)	8.2%	**2,315**	2,323	(0.3)%
Other Atlantic locations	**1,300**	1,332	(2.4)%	**(447)**	(465)	(3.9)%	**853**	867	(1.6)%
	$51,778	$50,854	1.8%	**($17,746)**	($17,183)	3.3%	**$34,032**	$33,671	1.1%

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

Nine months ended September 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Nova Scotia									
Halifax	**$61,221**	$59,169	3.5%	**($20,839)**	($20,957)	(0.6)%	**$40,382**	$38,212	5.7%
	61,221	59,169	3.5%	**(20,839)**	(20,957)	(0.6)%	**40,382**	38,212	5.7%
Ontario									
Ottawa	**9,550**	9,693	(1.5)%	**(3,169)**	(3,075)	3.1%	**6,381**	6,618	(3.6)%
London	**6,121**	5,917	3.4%	**(2,091)**	(1,980)	5.6%	**4,030**	3,937	2.4%
Cambridge-GTA	**10,949**	10,657	2.7%	**(3,581)**	(3,316)	8.0%	**7,368**	7,341	0.4%
	26,620	26,267	1.3%	**(8,841)**	(8,371)	5.6%	**17,779**	17,896	(0.7)%
New Brunswick									
Moncton	**13,919**	13,558	2.7%	**(6,105)**	(6,140)	(0.6)%	**7,814**	7,418	5.3%
Fredericton	**13,238**	12,737	3.9%	**(5,321)**	(5,259)	1.2%	**7,917**	7,478	5.9%
Saint John	**9,260**	8,989	3.0%	**(4,375)**	(4,485)	(2.5)%	**4,885**	4,504	8.5%
	36,417	35,284	3.2%	**(15,801)**	(15,884)	(0.5)%	**20,616**	19,400	6.3%
Newfoundland & Labrador									
St. John's	**7,341**	7,529	(2.5)%	**(2,525)**	(2,329)	8.4%	**4,816**	5,200	(7.4)%
	7,341	7,529	(2.5)%	**(2,525)**	(2,329)	8.4%	**4,816**	5,200	(7.4)%
Prince Edward Island									
Charlottetown	**8,923**	8,796	1.4%	**(3,595)**	(3,533)	1.8%	**5,328**	5,263	1.2%
	8,923	8,796	1.4%	**(3,595)**	(3,533)	1.8%	**5,328**	5,263	1.2%
Alberta									
Calgary	**4,384**	4,439	(1.2)%	**(1,418)**	(1,361)	4.2%	**2,966**	3,078	(3.6)%
Edmonton	**5,934**	5,527	7.4%	**(2,051)**	(1,946)	5.4%	**3,883**	3,581	8.4%
	10,318	9,966	3.5%	**(3,469)**	(3,307)	4.9%	**6,849**	6,659	2.9%
Other Atlantic locations	**3,918**	3,998	(2.0)%	**(1,460)**	(1,505)	(3.0)%	**2,458**	2,493	(1.4)%
	$154,758	$151,009	2.5%	**($56,530)**	($55,886)	1.2%	**$98,228**	$95,123	3.3%

Halifax

Halifax is Killam's largest rental market, contributing approximately 41% of apartment same property NOI for the three and nine months ended September 30, 2020. Same property apartment revenue increased 2.7% and 3.5% for the three and nine months ended September 30, 2020, as a result of a 3.9% increase in average rental rates, partially offset by an uptick in vacancy and the waiving of rental increases in July.

Total operating expenses increased 1.9% for the three months ended September 30, 2020, as increased insurance premiums and higher realty taxes offset other savings, including reduced utility costs. For the nine months ended September 30, 2020, total operating expenses were 0.6% lower than the same period of 2019. The decreased expense year-to-date was driven by lower natural gas and fuel costs as a result of decreases in commodity pricing, and lower repairs and maintenance costs, partially offset by higher realty taxes and insurance premiums. The net impact was a 3.1% and 5.7% increase in NOI for the three and nine months ended September 30, 2020.

Ontario

Killam's Ontario portfolio generated approximately 18% of apartment same property NOI for the three and nine months ended September 30, 2020. Revenue increased by 1.3% for the three and nine months ended September 30, 2020, driven by a 3.2% increase in average rental rates, partially offset by a decrease in occupancy in Ottawa and London. The decline in Ottawa relates primarily to Killam's Kanata properties, which carried higher vacancy in 2020 following increased supply in the immediate neighbourhood. Management expects to see year-over-year gains in 2021. Excluding the Kanata assets, occupancy levels at Killam's other Ottawa assets were up quarter-over-quarter.

Killam also experienced vacancy in the London market during the second and third quarters, with a decline of 110 bps in occupancy in Q3-2020 compared to Q3-2019. This is attributable to a property with a high student tenant mix and turnover that peaks annually in May, which continued to be impacted by COVID-19.

Total operating expenses increased 5.1% and 5.6% for the three and nine months ended September 30, 2020, compared to the same periods of 2019. This was primarily due to higher utility costs as a result of increased electricity and water consumption, increased realty taxes and higher staffing costs due to increased compensation related to COVID-19. In aggregate, same property NOI decreased 0.5% and 0.7% for the three and nine months ended September 30, 2020.

New Brunswick

Killam's apartments in Moncton, Fredericton and Saint John accounted for approximately 21% of apartment same property NOI for the three and nine months ended September 30, 2020. In aggregate, same property revenue increased 2.6% and 3.2% for the three and nine months ended September 30, 2020, following rental rate growth in Fredericton, Saint John and Moncton of 3.6%, 3.5% and 3.3%, respectively, partially offset by lower occupancy in Moncton and Saint John during the quarter.

Total operating expenses for the three months ended September 30, 2020, were 3.6% higher compared to Q3-2019. The increase is primarily due to salary increases for front-line workers, increased insurance premiums and higher realty taxes. For the nine months ended September 30, 2020, total operating expenses were 0.5% lower compared to the same period of 2019. Decreased utilities as a result of lower natural gas pricing and reduced unit electricity costs were partially offset by salary increases for front-line workers and higher insurance premiums and realty taxes. Overall, New Brunswick achieved a 2.0% and 6.3% increase in same property NOI for the three and nine months ended September 30, 2020.

Newfoundland and Labrador

Killam's St. John's properties accounted for approximately 5% of apartment same property NOI for the three and nine months ended September 30, 2020. Same property revenue decreased 4.5% and 2.5% for the three and nine months ended September 30, 2020, as compared to the same periods of 2019. While rental rates have increased by 1.8%, occupancy was 570 bps lower during the quarter. Lower occupancy in the region is due to economic pressure that has been further impacted by COVID-19. The region has seen reduced activity in the offshore oil sector as well as declines in other natural resource sectors, on which the Newfoundland economy is heavily reliant.

Total operating expenses for the three and nine months ended September 30, 2020, were 5.3% and 8.4% higher than the same periods of 2019. The increase in operating expenses was primarily due to higher staffing costs related to an expansion of the property management and leasing teams and higher insurance premiums. In aggregate, same property NOI was 8.7% and 7.4% lower for the three and nine months ended September 30, 2020.

Prince Edward Island

Killam's Charlottetown portfolio contributed approximately 5% of apartment same property NOI for the three and nine months ended September 30, 2020. Charlottetown achieved 0.9% and 1.4% revenue growth for the three and nine months ended September 30, 2020, from rental rate growth of 1.2%. Occupancy levels remain strong at over 99%.

Total operating expenses for the three and nine months ended September 30, 2020, were 2.2% and 1.8% higher compared to the same periods of 2019. The increase in operating expenses was primarily due to higher staffing costs, realty taxes and insurance premiums, slightly offset by lower oil costs. Overall, Charlottetown achieved a 0.2% and 1.2% increase in NOI for the three and nine months ended September 30, 2020, compared to the same periods of 2019.

Alberta

Killam's Calgary properties accounted for approximately 3% of apartment same property NOI for the three and nine months ended September 30, 2020. Calgary same property revenue decreased 2.2% and 1.2% for the three and nine months ended September 30, 2020, compared to the same periods of 2019, despite rental rate growth of 1.9% and a 160 bps increase in occupancy, due to decreased parking revenue at Killam's downtown Calgary asset (Grid 5) and increased rental incentive offerings. Killam's suburban assets in Calgary realized quarter-over-quarter improvements in revenue as demand remains stable for these assets. The decline in revenue is primarily due to Killam's Grid 5 asset. Total operating expenses for the three and nine months ended September 30, 2020, increased 9.6% and 4.2%, due to increased staffing costs, higher realty taxes and increased utility costs. Overall, Calgary realized decreased NOI of 7.1% and 3.6% for the three and nine months ended September 30, 2020.

Killam's Edmonton portfolio accounted for 4% of apartment same property NOI for the three and nine months ended September 30, 2020. Same property revenues increased 5.8% and 7.4%, as a result of a 750 bps increase in occupancy. Total operating expenses increased 7.2% and 5.4% for the three and nine months ended September 30, 2020. The increase in operating expenses was primarily due to higher realty taxes, the addition of on-site leasing staff and higher utility costs as a result of increased water consumption. Overall, Edmonton achieved increased NOI of 5.2% and 8.4% for the three and nine months ended September 30, 2020.

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

MHC Results

For the three months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$5,609**	$5,639	(0.5)%	**$5,288**	$5,631	(6.1)%	**$321**	$8	N/A
Property operating expenses	**1,849**	1,815	1.9%	**1,693**	1,809	(6.4)%	**156**	6	N/A
NOI	**$3,760**	$3,824	(1.7)%	**$3,595**	$3,822	(5.9)%	**$165**	$2	N/A
Operating margin %	**67.0%**	67.8%	(80) bps	**68.0%**	67.9%	10 bps	**51.4%**	—%	—

For the nine months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$13,336**	$13,181	1.2%	**$12,783**	$13,166	(2.9)%	**$553**	$15	N/A
Property operating expenses	**4,705**	4,738	(0.7)%	**4,379**	4,671	(6.3)%	**326**	67	N/A
NOI	**$8,631**	$8,443	2.2%	**$8,404**	$8,495	(1.1)%	**$227**	($52)	N/A
Operating margin %	**64.7%**	64.1%	60 bps	**65.7%**	64.5%	120 bps	**41.0%**	—%	—

The MHC business segment generated 7.0% of Killam's NOI for the nine months ended September 30, 2020. Overall, same property NOI decreased by 5.9% and 1.1% for the three and nine months ended September 30, 2020, due to declines from Killam's seasonal resort portfolio. The following table breaks down the same property revenue, expenses and NOI generated by Killam's permanent MHCs and seasonal resorts during the third quarter of 2020.

For the three months ended September 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% change	**2020**	2019	% change	**2020**	2019	% change
Permanent MHCs	**$2,946**	$2,892	1.9%	**($995)**	($1,008)	(1.3)%	**$1,951**	$1,884	3.6%
Seasonal Resorts	**2,342**	2,739	(14.5)%	**($698)**	($801)	(12.9)%	**1,644**	1,938	(15.2)%
	$5,288	$5,631	(6.1)%	**($1,693)**	($1,809)	(6.4)%	**$3,595**	$3,822	(5.9)%

Permanent MHCs generated a 3.6% increase in NOI during the quarter. Rents rose by 2.4%, to $261 per site from $255 per site in Q3-2019 and occupancy of 97.7% was maintained, compared to 97.8% in Q3-2019.

Killam's nine seasonal resorts were impacted by restrictions put into place by public health officials to curb the spread of COVID-19. As a result, Killam delayed opening its seasonal resorts and also had restrictions in place on transient camping, resulting in a 14.5% decrease in revenue for the three months ended September 30, 2020, compared to the same period of 2019. Travel restrictions associated with the quarantine requirements for travelers from outside Atlantic Canada also contributed to lower revenue at Killam's New Brunswick seasonal resorts. The reduction in seasonal revenue was partially offset by lower operating expenses, which decreased 12.9% primarily due to decreased administration costs.

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

Commercial Results

For the three months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$3,800**	$3,586	6.0%	**$2,023**	$2,007	0.8%	**$1,777**	$1,579	12.5%
Property operating expenses	**1,928**	1,663	15.9%	**722**	713	1.3%	**1,206**	950	26.9%
NOI	**$1,872**	$1,923	(2.7)%	**$1,301**	$1,294	0.5%	**$571**	$629	(9.2)%

For the nine months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$11,619**	$9,843	18.0%	**$6,066**	$6,183	(1.9)%	**$5,553**	$3,660	51.7%
Property operating expenses	**5,912**	4,699	25.8%	**2,199**	2,301	(4.4)%	**3,713**	2,398	54.8%
NOI	**$5,707**	$5,144	10.9%	**$3,867**	$3,882	(0.4)%	**$1,840**	$1,262	45.8%

Killam's commercial property portfolio contributed $5.7 million, or 4.6%, of Killam's total NOI for the nine months ended September 30, 2020. Killam's commercial property portfolio contains 749,661 SF, located in four of Killam's core markets. Commercial same property results represent 45.6% of Killam's commercial square footage and consist of Westmount Place located in Waterloo and three commercial properties, one of which is Killam's head office, located in Halifax, NS. Same property results do not include properties that were recently acquired or those that are slated for redevelopment and not operating as stabilized properties.

Total commercial occupancy was 89.4% at the end of Q3-2020. Occupancy levels reflect the continued redevelopment of the Brewery Market in Halifax, which is currently 79.4% leased. The decline in same property commercial revenue year-to-date was driven by participation in the CECRA program.

Killam self-manages its wholly-owned commercial properties (excluding Charlottetown Mall (50%)). Killam’s commercial leasing activity has continued throughout 2020, successfully leasing a net new 27,000 square feet of commercial space across the portfolio year-to-date. Killam has also renewed 28,000 square feet of commercial space year-to-date with a weighted average net rate increase of 2.9%.

Killam filed CECRA applications for approximately 40 commercial tenants and recorded a reduction in commercial revenue of $0.1 million during Q3-2020 related to the program. Killam is also working with tenants that did not qualify for CECRA on a case-by-case basis, and in certain cases has agreed to temporary rent deferrals for 60 to 90 days.

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

PART V

Other Income and Expenses

Other Income

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
	$169	$536	(68.5)%	**$489**	$1,002	(51.2)%

Other income includes property management fees for jointly held properties, interest on bank balances, and net revenue associated with the sale of homes in Killam's MHC segment. The 68.5% and 51.2% decrease for the three and nine months ended September 30, 2020, was due primarily to leasing fees earned in 2019 from the lease-up of the Frontier development and net insurance proceeds received in Q3-2019 related to a fire that occurred in July 2019 at a 29-unit apartment building.

Financing Costs

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
Mortgage, loan and construction loan interest	**$11,017**	$10,711	2.9%	**$32,923**	$31,140	5.7%
Interest on credit facilities	**104**	568	(81.7)%	**643**	1,106	(41.9)%
Interest on exchangeable units	**697**	685	1.8%	**2,087**	2,042	2.2%
Amortization of deferred financing costs	**788**	720	9.4%	**2,320**	2,356	(1.5)%
Amortization of fair value adjustments on assumed debt	**56**	34	64.7%	**75**	108	(30.6)%
Unrealized (gain) loss on derivative liability	**(5)**	(11)	(54.5)%	**489**	302	61.9%
Interest on lease liabilities	**96**	72	33.3%	**289**	217	33.2%
Capitalized interest	**(754)**	(451)	67.2%	**(1,950)**	(1,735)	12.4%
	$11,999	$12,328	(2.7)%	**$36,876**	$35,536	3.8%

Total financing costs decreased $0.3 million, or 2.7%, for the three months ended September 30, 2020, and increased $1.3 million, or 3.8% for the nine months ended September 30, 2020, as compared to the same periods of 2019.

Mortgage, loan and construction loan interest expense was $11.0 million and $32.9 million for the three and nine months ended September 30, 2020, an increase of $0.3 million, or 2.9%, and $1.8 million, or 5.7%, compared to the same periods of 2019. Killam's mortgage, loan and construction loan liability balance increased by $128.6 million over the past twelve months as Killam up financed maturing mortgages within its existing portfolio and obtained financing for acquisitions and developments. The average interest rate on refinancings for the nine months ended September 30, 2020, was 1.87%, 80 bps lower than the average interest rate on expiring debt.

Deferred financing costs include mortgage assumption fees, application fees and legal costs related to financings and refinancings. These costs are amortized over the term of the respective mortgages. CMHC insurance fees are amortized over the amortization period of the mortgage. Deferred financing amortization costs increased 9.4% quarter-over-quarter and decreased 1.5% year-to-date, following mortgage refinancings and debt placement related to property acquisitions over the past twelve months. Based on the current portfolio, normalized deferred financing costs are expected to be approximately $0.8 million per quarter. This expense may fluctuate with refinancings.

Capitalized interest increased $0.3 million and $0.2 million for the three and nine months ended September 30, 2020, compared to the same periods of 2019. Capitalized interest will vary depending on the number of development projects underway and their stages in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

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

Depreciation Expense

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
	$171	$174	(1.7)%	**$487**	$499	(2.4)%

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

Administration Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
Administration	**$3,668**	$3,674	(0.2)%	**$10,867**	$10,974	(1.0)%
As a percentage of total revenues	**5.5%**	5.8%	(30) bps	**5.6%**	6.1%	(50) bps

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

For the three and nine months ended September 30, 2020, total administration expenses decreased slightly by 0.2% and 1.0%, compared to the same periods of 2019, due to lower restricted trust unit ("RTU") expense, salary costs and travel costs. Administration expenses as a percentage of total revenues were 5.5% for Q3-2020, 30 bps lower than Q3-2019.

Fair Value Adjustments

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
Investment properties	**$14,718**	$35,846	(58.9)%	**$18,364**	$133,681	(86.3)%
Deferred unit-based compensation	**(134)**	(619)	(78.4)%	**91**	(1,772)	105.1%
Exchangeable units	**656**	(5,152)	(112.7)%	**6,650**	(16,988)	139.1%
	$15,240	$30,075	(49.3)%	**$25,105**	$114,921	(78.2)%

Killam recognized $14.7 million and $18.4 million in fair value gains related to investment properties for the three and nine months ended September 30, 2020, compared to $35.8 million and $133.7 million in fair value gains for the three and nine months ended September 30, 2019. During Q3-2020, Killam recognized a fair value gain of $16.7 million related to the apartment portfolio due to strong demand for units and increased NOI, partially offset by fair value losses on its MHC and commercial portfolios of $1.1 million and $0.9 million.

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

RTUs governed by Killam's RTU Plan are awarded to certain members of Management as a portion of their compensation. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs. This aligns the interests of Management and the Trustees with those of unitholders. For the three months ended September 30, 2020, there was an unrealized fair value loss of $0.1 million, compared to a $0.6 million loss in Q3-2019. For the nine months ended September 30, 2020, there was an unrealized fair value gain of $0.1 million, versus a $1.8 million loss in the same period of 2019, due to changes in the market price of the underlying Killam trust units.

Distributions paid on exchangeable units are consistent with distributions paid to Killam's unitholders. The exchangeable units are redeemable on a one-for-one basis into trust units at the option of the holder. The fair value of the exchangeable units is based on the trading price of Killam's trust units. For the three months ended September 30, 2020, there was an unrealized gain on remeasurement of $0.7 million, compared to an unrealized loss of $5.2 million in the same period of 2019. The unrealized gain in the quarter reflects a decrease in Killam's unit price as at September 30, 2020, compared to June 30, 2020. For the nine months ended September 30, 2020, there was an unrealized gain of $6.7 million, compared to an unrealized loss of $17.0 million in the same period of 2019, due to changes in the market price of Killam's trust units.

Deferred Tax Expense

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
	$5,503	$8,698	(36.7)%	**$2,849**	$23,358	(87.8)%

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

Killam's deferred tax expense decreased $3.2 million and $20.5 million for the three and nine months ended September 30, 2020, compared to the same periods of 2019, primarily due to a reduction in the Nova Scotia provincial tax rate and reduction in fair value gains on investment properties period-over-period.

PART VI

Per Unit Calculations

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

	Weighted Average Number of Units (000s)						Outstanding Number of Units (000s) as at September 30,
	Three months ended September 30,			Nine months ended September 30,			
	2020	2019	% Change	**2020**	2019	% Change	**2020**
Trust units	**101,426**	91,692	10.6%	**99,281**	90,262	10.0%	**102,862**
Exchangeable units	**4,102**	4,154	(1.3)%	**4,119**	4,154	(0.8)%	**4,102**
Basic number of units	**105,528**	95,846	10.1%	**103,400**	94,416	9.5%	**106,964**
Plus:							
Units under RTU plan	**163**	198	(17.7)%	**164**	196	(16.3)%	**—**
Diluted number of units	**105,691**	96,044	10.0%	**103,564**	94,612	9.5%	**—**

Funds from Operations

FFO are recognized as an industry-wide standard measure of real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. Killam calculates FFO in accordance with the REALpac definition. Notwithstanding the foregoing, FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. FFO for the three and nine months ended September 30, 2020 and 2019 are calculated as follows:

	Three months ended September 30,			**Nine months ended September 30,**		
	2020	2019	% Change	**2020**	2019	% Change
Net income	**$37,465**	$46,839	(20.0)%	**$97,476**	$156,719	(37.8)%
Fair value adjustments	**(15,240)**	(30,075)	(49.3)%	**(25,105)**	(114,921)	(78.2)%
Non-controlling interest	**(5)**	(5)	—%	**(13)**	(14)	(7.1)%
Internal commercial leasing costs	**51**	79	(35.4)%	**213**	238	(10.5)%
Deferred tax expense	**5,503**	8,698	(36.7)%	**2,849**	23,358	(87.8)%
Interest expense on exchangeable units	**697**	685	1.8%	**2,087**	2,042	2.2%
Net insurance proceeds	**—**	(268)	(100.0)%	**—**	(268)	(100.0)%
Loss on disposition	**—**	235	(100.0)%	**—**	1,229	(100.0)%
Unrealized loss (gain) on derivative liability	**(6)**	(11)	(45.5)%	**489**	302	(61.9)%
Depreciation on owner-occupied building	**39**	38	2.6%	**122**	108	13.0%
Change in principal related to lease liabilities	**8**	32	(75.0)%	**24**	95	(74.7)%
FFO	**$28,512**	$26,247	8.6%	**$78,142**	$68,888	13.4%
FFO per unit – basic	**$0.27**	$0.27	—%	**$0.76**	$0.73	4.1%
FFO per unit – diluted	**$0.27**	$0.27	—%	**$0.75**	$0.73	2.7%
Weighted average number of units – basic (000s)	**105,528**	95,846	10.1%	**103,400**	94,416	9.5%
Weighted average number of units – diluted (000s)	**105,691**	96,044	10.0%	**103,564**	94,612	9.5%

Killam earned FFO of $28.5 million, or $0.27 per unit (diluted), for the three months ended September 30, 2020, compared to $26.2 million, or $0.27 per unit (diluted), for the three months ended September 30, 2019. FFO growth is primarily attributable to contributions from acquisitions and the Frontier development ($1.1 million) and same property NOI growth ($0.3 million). These increases were partially offset by a 10.0% increase in the weighted average number of units outstanding.

Killam earned FFO of $78.1 million, or $0.75 per unit (diluted), for the nine months ended September 30, 2020, compared to $68.9 million, or $0.73 per unit (diluted), for the nine months ended September 30, 2019. FFO growth is primarily attributable to contributions for acquisitions and completed developments ($5.9 million), same property NOI growth ($2.7 million) and lower interest costs ($0.7 million). These increases were partially offset by a 9.5% increase in the number of weighted average number of units outstanding.

Adjusted Funds from Operations

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

Killam uses a rolling three-year historic average of actual maintenance capex for its apartment and MHC portfolios to calculate AFFO. This includes a maintenance capex reserve of $900 per apartment unit, $300 per MHC site and $0.70 per SF for commercial properties. Details regarding the maintenance capex calculations are included in Killam's 2019 Annual Report.

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

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
FFO	**$28,512**	$26,247	8.6%	**$78,142**	$68,888	13.4%
Maintenance capital expenditures	**(4,221)**	(4,106)	2.8%	**(12,589)**	(12,094)	4.1%
Commercial straight-line rent adjustment	**(108)**	(111)	(2.7)%	**(446)**	(322)	38.5%
Internal and external commercial leasing costs	**(84)**	(63)	33.3%	**(302)**	(386)	(21.8)%
AFFO	**$24,099**	$21,967	9.7%	**$64,805**	$56,086	15.5%
AFFO per unit – basic	**$0.23**	$0.23	—%	**$0.63**	$0.59	6.8%
AFFO per unit – diluted	**$0.23**	$0.23	—%	**$0.63**	$0.59	6.8%
AFFO payout ratio – diluted	**75%**	72%	300 bps	**82%**	83%	(100) bps
AFFO payout ratio – rolling 12 months [1]	**81%**	84%	(300) bps			
Weighted average number of units – basic (000s)	**105,528**	95,846	10.1%	**103,400**	94,416	9.5%
Weighted average number of units – diluted (000s)	**105,691**	96,044	10.0%	**103,564**	94,612	9.5%

[1]Based on Killam's annual distribution of $0.67169 for the 12-month period ended September 30, 2020, and $0.65165 for the 12-month period ended September 30, 2019. The calculation uses a maintenance capex reserve for apartments of $900 for the rolling 12 months ended September 30, 2020 and 2019.

The payout ratio of 75% in Q3-2020, compared to the rolling 12-month payout ratio of 81%, corresponds with the seasonality of Killam's business. Killam's first quarter typically has the highest payout ratio due to the lower operating margin in the period attributable to higher heating and operating costs in the winter months. In addition, the MHC portfolio typically generates its highest revenues and NOI during the second and third quarters of the year due to the contribution from its seasonal resorts that generate approximately 60% of their NOI between July and September each year.

The change in the AFFO payout ratio during the quarter is attributable to flat AFFO per unit results, compared to the 3.0% distribution increase announced during Q1-2020. Year to date, AFFO per unit increased 6.8%, resulting in a 100 bps improvement in the AFFO payout ratio for the nine months ended September 30, 2020, driven by contributions from acquisitions and developments and same property NOI growth, partially offset by the impact of the increase in weighted average number of units outstanding.

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

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

Adjusted Cash Flow from Operations

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

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

A reconciliation from cash provided by operating activities (refer to the condensed consolidated interim statements of cash flows for the three and nine months ended September 30, 2020 and 2019) to ACFO is as follows:

	Three months ended September 30,			**Nine months ended September 30,**		
	2020	2019	% Change	**2020**	2019	% Change
Cash provided by operating activities	**$35,389**	$38,611	(8.3)%	**$88,838**	$74,054	20.0%
Adjustments:						
Changes in non-cash working capital not indicative of sustainable cash flows	**(5,461)**	(11,620)	(53.0)%	**(6,759)**	(4,135)	63.5%
Maintenance capital expenditures	**(4,221)**	(4,106)	2.8%	**(12,589)**	(12,094)	4.1%
External commercial leasing costs	**(32)**	(63)	(49.0)%	**(134)**	(386)	(65.0)%
Amortization of deferred financing costs	**(788)**	(720)	9.4%	**(2,320)**	(2,356)	(1.5)%
Interest expense related to lease liability	**(8)**	32	(125.0)%	**(24)**	95	(125.3)%
Non-controlling interest	**(5)**	(5)	— %	**(13)**	(14)	(7.1)%
ACFO	**$24,874**	$22,129	12.4%	**$66,999**	$55,164	21.5%
Distributions declared [1]	**18,394**	16,032	14.7%	**53,265**	47,073	13.2%
Excess of ACFO over cash distributions	**$6,480**	$6,097	6.3%	**$13,734**	$8,091	69.7%
ACFO payout ratio – diluted [2]	**74%**	72%	200 bps	**80%**	85%	(500) bps

[1] Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 37.

[2] Based on Killam's monthly distribution of $0.05667 per unit for March-September 2020, $0.055 per unit from March 2019 to February 2020 and $0.05333 per unit from January to February 2019.

Killam's ACFO payout ratio is 74% and 80% for both the three and nine months ended September 30, 2020. Similarly to the AFFO payout ratio, Killam's first quarter typically has the highest ACFO payout ratio due to the lower operating margin in the period attributable to higher heating costs in the winter months and the fact the MHC portfolio typically generates its highest revenues and NOI during the second and third quarters of the year.

Cash Provided by Operating Activities and Distributions Declared

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2020	2019	**2020**	2019
Net income	**$37,465**	$46,839	**$97,476**	$156,719
Cash provided by operating activities	**$35,389**	$38,611	**$88,838**	$74,054
Total distributions declared	**$18,394**	$16,032	**$53,265**	$47,073
Excess of net income over total distributions declared	**$19,071**	$30,807	**$44,211**	$109,646
Excess of net income over net distributions paid [1]	**$24,884**	$35,527	**$59,822**	$122,384
Excess of cash provided by operating activities over total distributions declared	**$16,995**	$22,579	**$35,573**	$26,981

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

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

PART VII

Investment Properties

As at

	September 30, 2020	December 31, 2019	% Change
Investment properties	**$3,432,903**	$3,234,410	6.1%
Investment properties under construction ("IPUC")	**114,777**	46,867	144.9%
Land for development	**39,158**	39,327	(0.4%)
	$3,586,838	$3,320,604	8.0%

Continuity of Investment Properties

As at

	September 30, 2020	December 31, 2019	% Change
Balance, beginning of period	**$3,234,410**	$2,708,617	19.4%
Acquisition of properties	**133,501**	185,763	(28.1)%
Transfer to assets held for sale	**—**	(15,099)	(100.0)%
Transfer from IPUC	**—**	36,215	(100.0)%
Capital expenditures	**39,775**	71,495	(44.4)%
Fair value adjustment - Apartments	**35,076**	208,624	(83.2)%
Fair value adjustment - MHCs	**(1,975)**	38,540	(105.1)%
Fair value adjustment - Commercial	**(8,523)**	(1,549)	450.2%
Impact of change in right-of-use asset	**639**	1,804	(64.6)%
Balance, end of period	**$3,432,903**	$3,234,410	6.1%

The key valuation assumption in the determination of fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at September 30, 2020 and 2019, and December 31, 2019, is as follows:

Capitalization Rates

	September 30, 2020			December 31, 2019			September 30, 2019		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**3.50%**	**8.00%**	**4.73%**	3.50%	8.00%	4.76%	3.50%	8.00%	5.05%
MHCs	**5.00%**	**6.50%**	**5.64%**	5.00%	6.50%	5.65%	5.00%	6.50%	5.62%
Commercial	**5.20%**	**9.00%**	**6.23%**	5.20%	9.00%	6.20%	5.20%	9.00%	6.27%

Killam's effective weighted average cap-rate for its apartment and MHC portfolios at September 30, 2020 was 4.73% and 5.64%, relatively consistent with the cap-rates as at December 31, 2019. The COVID-19 pandemic has resulted in a higher degree of uncertainty surrounding market values and management estimated cap-rates for the quarter based on the current information available. Management reflected the impact of COVID-19 in a reduction in rental growth expectations and higher than normal estimates of bad debt expense, both of which tapered NOI growth expectations in Killam's direct cap-rate valuations, starting in Q1-2020.

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

Cap-rate Sensitivity Increase/(Decrease)	**Fair Value of Investment Properties**	**Effective Weighted Average**	**Fair Value Variance**	**% Change**
(0.50)%	$3,783,258	4.38%	$350,355	10%
(0.25)%	3,577,238	4.63%	144,335	4%
—%	3,432,903	4.88%	—	—%
0.25%	3,226,212	5.13%	(206,691)	(6)%
0.50%	3,075,445	5.38%	(357,458)	(10)%

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

2020 Acquisitions - Investment Properties

						Purchase Price [(1)]	
Property	**Location**	**Acquisition Date**	**Ownership Interest**	**Property Type**	**Units/SF**	**Income-producing Properties**	**Land for Development**
Christie Point	Victoria, BC	15-Jan-20	100%	Apartment	161	**$54,000**	**$—**
9 Carrington	Halifax, NS	31-Jan-20	100%	Apartment	54	**8,800**	**—**
Domaine Parlee	Shediac, NB	23-Mar-20	100%	MHC	89	**3,950**	**—**
1325 Hollis	Halifax, NS	31-Mar-20	100%	Apartment	7	**3,700**	**—**
Crossing at Belmont	Langford, BC	30-Apr-20	100%	Apartment	156	**60,000**	**—**
3644 & 3670 Kempt Rd	Halifax, NS	15-Jul-20	100%	Commercial	12,700	**2,500**	**—**
Luma	Ottawa, ON	30-Jul-20	50%	Development Land	—	**—**	**4,300**
Total Acquisitions						**$132,950**	**$4,300**

(1) Purchase price does not include transaction costs.

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

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

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

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

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

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

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

Investment Properties Under Construction

As at	**September 30, 2020**	December 31, 2019	% Change
Balance, beginning of period	**$46,867**	$37,163	26.1%
Fair value adjustment	**—**	774	(100.0)%
Capital expenditures	**51,242**	29,341	74.6%
Interest capitalized	**1,237**	754	64.1%
Acquisitions	**3,969**	—	N/A
Transfer to investment properties	**—**	(36,215)	(100.0)%
Transfer from land for development	**11,462**	15,050	(23.8)%
Balance, end of period	**$114,777**	$46,867	144.9%

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

Land for Development

As at	September 30, 2020	December 31, 2019	% Change
Balance, beginning of period	**$39,327**	$61,028	(35.6)%
Fair value adjustment (1)	**(6,257)**	(1,663)	276.2%
Capital expenditures	**2,623**	5,700	(54.0)%
Interest capitalized	**713**	1,513	(52.9)%
Acquisitions	**—**	6,200	(100.0)%
Transfer to IPUC	**(11,462)**	(15,050)	(23.8)%
Transfer from (to) held for sale (1)	**14,214**	(18,401)	(177.2)%
Balance, end of period	**$39,158**	$39,327	(0.4%)

(1) Year-to-date Killam recorded a fair value loss of $6.3 million on development land in downtown Calgary, AB. Killam determined that this parcel of land for development, previously classified as held for sale, no longer met the criteria for this classification. As at March 31, 2020, Killam reclassified the land from held for sale to investment properties. As at September 30, 2020, the property has a carrying value of $8.0 million (Killam's 40% interest).

Killam's development projects currently underway include the following six projects:

Property	Location	Ownership	Number of Units (1)	Project Budget (millions) (3)	Start Date	Estimated Year of Completion	Percent Complete	Anticipated All-cash Yield
Shorefront	Stratford, PE	100%	78	$22.0	2018	2020	97%	~ 5.25%
10 Harley Street	Charlottetown, PE	100%	38	$10.4	2019	2020	71%	5.00% - 5.25%
Latitude	Ottawa, ON	50%	104	$42.0	2019	2021	53%	4.75% - 5.00%
The Kay	Mississauga, ON	100%	128	$57.0	2019	2022	46%	4.75% - 5.00%
Luma	Ottawa, ON	50%	84	$44.3	2019	2022	36%	4.00% - 4.25%
Civic 66	Kitchener, ON	100%	169	$69.7	2020	2022	18%	4.75% - 5.00%
Total (2)			601	$245.4				

(1) Represents Killam's ownership interest and number of units in the development.
(2) Killam also holds a 10% interest in the Nolan Hill development project in Calgary, totaling 233 units, which is included in IPUC.
(3) Project budget excluding land costs.

Shorefront

Killam's 78-unit, five-storey, Shorefront development in Charlottetown, PE, was substantially complete with tenants moving in during October. Final project costs are estimated to be approximately $22.0 million ($282,000/suite), resulting in an expected all-cash yield of approximately 5.25%, a 50–75 bps premium over the market cap-rate for a similar quality asset. The property is currently 33% leased.

10 Harley Street

Killam's 38-unit 10 Harley project is expected to cost approximately $10.4 million ($274,000/suite). Construction is over 70% complete and the building is expected to open with tenants moving in during Q1-2021.

Latitude

Latitude, the second phase of the Gloucester City Centre development, containing 209 units, broke ground during the second quarter of 2019 and is expected to be completed in late 2021. The total cost is budgeted at $84.0 million ($42.0 million for Killam's 50% interest). Construction financing was placed on this project during Q3-2020 and all remaining development costs will be funded through this financing.

The Kay

The budget for this 128-unit development located in Mississauga, ON is $57.0 million, or $445,500 per suite, with an anticipated all-cash yield in the range of 4.75% - 5.00%, approximately a 125–175 bps premium over the market cap-rate for a similar quality asset. The development broke ground during the third quarter of 2019 and is expected to be completed in early 2022. Construction financing was put in place during Q2-2020 and all remaining development costs will be funded through this financing.

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

Luma

On July 30, 2020, Killam acquired a 50% interest in a parcel of land for development from RioCan REIT to jointly develop a 168-unit apartment building adjacent to the grocery-anchored Elmvale Acres Shopping Centre in Ottawa. Subsequent to this purchase, Killam invested $9.8 million to reflect Killam's portion of construction costs completed to date. This development broke ground in Q3-2019 and is expected to be completed in early 2022. Killam's 50% cost is approximately $44.3 million with a 4.00% - 4.25% yield.

Civic 66

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

Nolan Hill

The Nolan Hill development located in Calgary, of which Killam has a 10% interest, broke ground during Q4-2019 and construction is approximately 85% complete. Killam has a commitment to acquire the remaining 90% interest in the 233-unit building upon completion of Phase 1. The acquisition price upon completion is fixed at $55.0 million.

Future Development Pipeline

Killam has a robust development pipeline. Seventy percent of Killam's development pipeline is outside Atlantic Canada. Killam targets yields of 4.75% - 5.50% on developments, 50–150 bps higher than the expected cap-rate value on completion. Building out the $850 million pipeline at a 100 bps spread should create approximately $200 million in NAV growth for unitholders. Killam currently has the following land available for future development:

Property	Location	Killam's Interest	Development Potential (# of Units) (1)	Status	Estimated Year of Completion
Developments expected to start in 2021					
The Governor (2)	Halifax, NS	100%	12	Building permit	2023
Westmount Place (Phase 1)	Waterloo, ON	100%	140	In design and approval process	2024
Developments expected to start in 2022-2026					
Carlton East & West	Halifax, NS	100%	130	In design	2024
St. George Street	Moncton, NB	100%	60	In design	2024
15 Haviland	Charlottetown, PE	100%	60-90	In design	2024
Gloucester City Centre (Phase 3-4)	Ottawa, ON	50%	200	In design	2025
Westmount Place (Phase 2-5)	Waterloo, ON	100%	908	In design	2028
Additional future development projects					
Gloucester City Centre (Phase 5)	Ottawa, ON	50%	100	Future development	TBD
Kanata Lakes	Ottawa, ON	50%	40	Future development	TBD
Christie Point	Victoria, BC	100%	312	Future development	TBD
Medical Arts	Halifax, NS	100%	200	Future development	TBD
Topsail Road	St. John's, NL	100%	225	Future development	TBD
Block 4	St. John's, NL	100%	80	Future development	TBD
Total Development Opportunities (3)			**2,467**		

(1) Represents Killam's ownership in the potential development units.

(2) This development is adjacent The Alexander, Killam's newly completed development, and will include 12 large-scale luxury suites.

(3) In addition, Killam has a 10% interest in a four-phase, 829-unit development project. At the completion of construction of the first phase, which is expected to be completed in Q1-2021 and achievement of certain conditions, Killam has a $55.0 million commitment in place to purchase three, four-storey apartment buildings, containing 233 residential units.

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

Capital Improvements

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

During the three and nine months ended September 30, 2020, Killam invested $17.7 million and $39.8 million, compared to $22.7 million and $49.8 million for the three and nine months ended September 30, 2019. This decrease reflects the timing of the completion of larger capital projects quarter-over-quarter as well as delays in the start of capital projects, as a result of COVID-19. Capital spend associated with Killam's repositioning program has increased in 2020 as demand for these repositioned units has remained strong. Killam has also increased capital investment associated with its commercial portfolio, specifically with leaseholds for new tenants at the Brewery Market and curb appeal investments at Westmount Place. Killam continues to review its capital plan for 2020 in response to COVID-19, however expects to invest in the range of $65.0 million during the year.

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
Apartments	**$15,710**	$20,466	(23.2)%	**$35,692**	$45,770	(22.0)%
MHCs	**1,220**	1,207	1.1 %	**2,060**	2,530	(18.6)%
Commercial	**720**	1,046	(31.2)%	**2,023**	1,541	31.3%
	$17,650	$22,719	(22.3)%	**$39,775**	$49,841	(20.2)%

Apartments - Capital Investment

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

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
Building improvements	**$6,220**	$11,447	(45.7)%	**$13,712**	$26,765	(48.8)%
Suite renovations	**6,068**	6,320	(4.0)%	**15,735**	13,601	15.7%
Appliances	**745**	660	12.9%	**1,842**	1,676	9.9%
Boilers and heating equipment	**929**	1,020	(8.9)%	**1,572**	2,106	(25.4)%
Other	**1,748**	1,019	71.5%	**2,831**	1,622	74.5%
Total capital invested	**$15,710**	$20,466	(23.2)%	**$35,692**	$45,770	(22.0)%
Average number of units outstanding (1)	**16,217**	15,667	3.5%	**16,130**	15,429	4.5%
Capital invested - $ per unit	**$969**	$1,306	(25.8)%	**$2,213**	$2,966	(25.4)%

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

Killam invested $969 and $2,213 per unit for the three and nine months ended September 30, 2020, compared to $1,306 and $2,966 per unit for the same periods of 2019. This decrease is attributable to certain capital projects being deferred, as a result of physical distancing restrictions and the uncertainty surrounding COVID-19.

Killam's focus on development and acquisition of newer properties translates into a lower capital maintenance per unit than many other apartment owners in Canada. Thirty-three percent of Killam's apartments, as a percentage of 2020 forecasted NOI, were built in the past 10 years, and the average age of Killam's portfolio is 28 years. This portfolio of newer assets allows Killam to focus on value-enhancing opportunities as the maintenance capital requirements are lower.

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

Building Improvements

Of the $15.7 million and $35.7 million total capital invested in the apartment segment for the three and nine months ended September 30, 2020, approximately 40% and 38% was invested in building improvements, compared to 56% and 58% of the total capital investment for the three and nine months ended September 30, 2019. These investments include exterior cladding and brick work, balcony refurbishments, roof upgrades, sidewalk replacements, common area upgrades and energy and water efficiency investments, such as air sealing and low-flow toilet upgrades, to increase the quality and efficiency of Killam's portfolio. The quarter-over-quarter and year-to-date variances relate primarily to the timing and deferral of certain capital projects due to COVID-19, resulting in a slowdown in the completion of common area upgrades as a result of physical distancing requirements.

Suite Renovations and Repositionings

Killam invested $6.1 million for the three months ended September 30, 2020, a 4.0% decrease over Q3-2019. For the nine months ended September 30, 2020, Killam invested $15.7 million in suite renovations, a 15.7% increase over the total investment of $13.6 million for the same period of 2019. This increase is due to the acceleration of Killam's repositioning program. Killam continues to focus on unit renovations to maximize occupancy and rental growth. Killam targets a minimum return on investment of 10% for its suite renovations, earning rental growth of 10%–30%. The timing of suite renovation investment is influenced by tenant turnover, market conditions and individual property requirements. The length of time that Killam has owned a property and the age of the property also impact capital requirements. Year-to-date, Killam has completed upgrades to 426 units, with an average investment of approximately $25,500 per suite, generating an average ROI of 12.0%.

A summary of the repositioning activities for the nine months ended September 30, 2020 is set out below:

	2020 Repositioning Program				
Region	YTD-2020 Units Repositioned	Average Investment per Unit	Rental Lift Achieved %	Avg Return on Investment	Remaining Units Eligible to Reposition
Nova Scotia	284	$24,200	21%	11%	3,000
Ontario	40	$37,100	32%	15%	500
New Brunswick	90	$23,400	29%	13%	1,300
Newfoundland	3	$32,100	29%	10%	150
Alberta	9	$32,000	30%	14%	50
Total (weighted average)	**426**	**$25,500**	**24%**	**12%**	**5,000**

Killam is targeting and expects to complete 500 repositionings in 2020. In the long-term, Killam estimates that the reposition opportunity within the current portfolio is approximately an additional 5,000 units, which should generate an estimated $17.0 million in additional annualized revenue representing an approximate $340 million increase in NAV.

Expanding our Sustainability Focus

Killam continued to execute on its energy efficiency plan during Q3-2020. Killam will continue to invest in additional energy efficiency initiatives, which include the installation of photovoltaic solar panels at select properties and heating efficiencies. Since 2015, Killam has installed over 11,500 low-flow toilets, saving an estimated 700 million litres of water annually across the portfolio and generating approximately $1.6 million in water consumption savings. Killam also plans to augment its sustainability programs and improve its Global Real Estate Sustainability Benchmark ("GRESB") rating. Killam is committed to lowering and reporting on its greenhouse gas emissions and also completing benchmarking using third-party validation.

MHCs - Capital Investment

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

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
Water and sewer upgrades	**$561**	$466	20.4%	**$899**	$1,012	(11.2)%
Site expansion and land improvements	**172**	126	36.5%	**194**	179	8.4%
Other	**487**	615	(20.8)%	**967**	1,339	(27.8)%
Total capital invested - MHCs	**$1,220**	$1,207	1.1%	**$2,060**	$2,530	(18.6)%
Average number of sites	**5,875**	5,427	8.3%	**5,848**	5,427	7.8%
Capital invested - $ per site	**$208**	$222	(6.3)%	**$352**	$466	(24.5)%

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

Management expects to invest between $600 and $950 per MHC site annually. Consistent with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is considered value enhancing. Maintenance capital includes costs to support the existing infrastructure, and value-enhancing capital includes improvements to roadways, work to accommodate future expansion, and various community enhancements. A portion of MHC capital may be recovered through above guideline increases in provinces with rent control, leading to increased NOI from the investments.

Total capital invested during the three and nine months ended September 30, 2020 was $1.2 million and $2.1 million, consistent with Q3-2019 and down from $2.5 million for the nine months ended September 30 2019. The decrease in capital spend year-to-date is due to timing of various community enhancements and water and sewer upgrades. As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community.

Commercial - Capital Investment

During the three and nine months ended September 30, 2020, Killam invested $0.7 million and $2.0 million in its commercial portfolio, compared to $1.0 million and $1.5 million for the three and nine months ended September 30, 2019. These investments relate primarily to upgrades and tenant improvements at the Brewery Market as Killam continues to reposition this property, as well as common area upgrades at Westmount Place.

Mortgages and Other Loans

The table below outlines Killam's key debt metrics:

As at	**September 30, 2020**	December 31, 2019	Change
Weighted average years to debt maturity	**4.5**	4.5	—
Total debt to total assets	**43.8%**	43.4%	40 bps
Interest coverage	**3.34x**	3.20x	4.4%
Debt service coverage	**1.59x**	1.57x	1.3%
Debt to normalized EBITDA (1)	**10.32x**	10.15x	1.7%
Weighted average mortgage interest rate	**2.77%**	2.90%	(13) bps
Weighted average interest rate of total debt	**2.76%**	2.92%	(16) bps

(1) Ratio calculated net of cash.

Killam’s long-term debt consists largely of fixed-rate, long-term mortgages. Mortgages are secured by a first or second charge against individual properties. Killam’s weighted average interest rate on mortgages as at September 30, 2020, was 2.77%, 13 bps lower compared to the rate as at December 31, 2019.

Total debt as a percentage of total assets was 43.8% at September 30, 2020, compared to 43.4% at December 31, 2019. Total debt to total assets is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes.

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

Cap-rate Sensitivity Increase/ (Decrease)	**Fair Value of Investment Properties**	**Total Assets**	**Total Debt as % of Total Assets**	**Change (bps)**
(0.50)%	$3,783,258	$3,979,144	39.9%	(390)
(0.25)%	$3,577,238	$3,773,124	42.1%	(170)
—%	$3,432,903	$3,628,789	43.8%	—
0.25%	$3,228,738	$3,424,624	46.4%	260
0.50%	$3,075,445	$3,271,331	48.5%	480

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

Refinancings

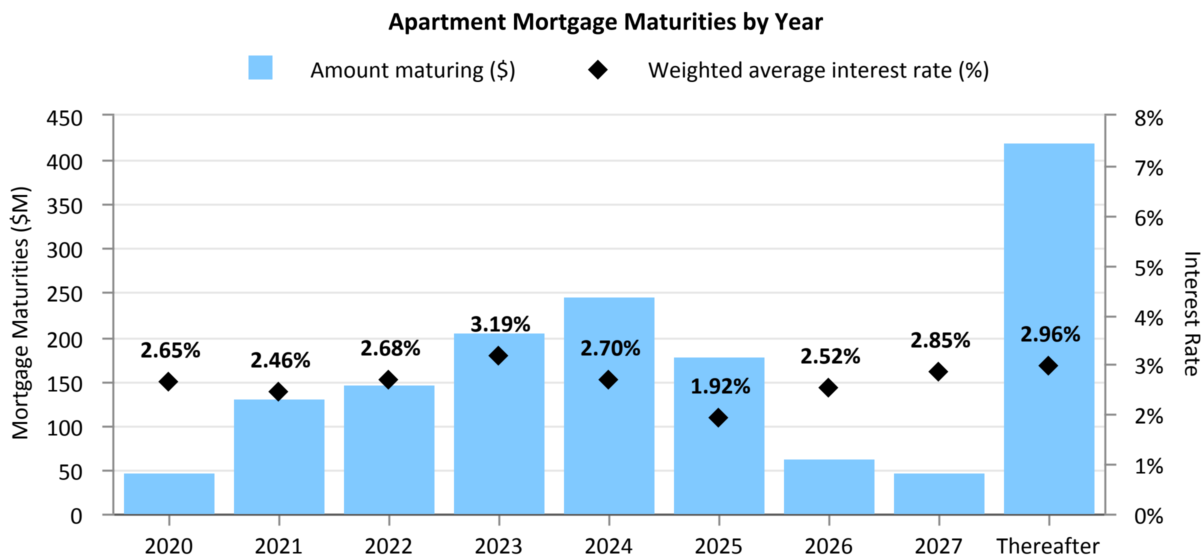
For the nine months ended September 30, 2020, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$159,649	2.62%	$199,461	1.80%	6.1 years	$39,812
MHCs	11,532	3.41%	17,798	2.76%	5.0 years	6,266
	$171,181	2.67%	$217,259	1.87%	6 years	$46,078

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

	Apartments			MHCs and Commercial		Total	
Year of Maturity	Balance September 30	Weighted Avg Int. Rate %	% CMHC Insured	Balance September 30	Weighted Avg Int. Rate %	Balance September 30 (1)	Weighted Avg Int. Rate %
2020	$46,397	2.65%	32.7%	$1,916	3.72%	$48,313	2.70%
2021	130,414	2.46%	86.4%	12,220	2.46%	142,634	2.56%
2022	147,895	2.68%	48.0%	24,379	3.58%	172,274	2.81%
2023	204,990	3.19%	67.5%	31,688	3.78%	236,678	3.27%
2024	247,112	2.70%	92.7%	13,294	3.49%	260,406	2.74%
2025	178,091	1.92%	100.0%	17,948	2.69%	196,039	1.99%
Thereafter	533,620	2.90%	100.0%	—	—%	533,620	2.90%
	$1,488,519	2.72%	85.8%	$101,445	3.34%	$1,589,964	2.77%

(1) Excludes $7.8 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at September 30, 2020.



Access to mortgage debt is essential in refinancing maturing debt and financing acquisitions. Management has diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered maturity dates to manage interest rate risk. Management anticipates continued access to mortgage debt for both acquisitions and refinancings. Killam has experienced continued access to mortgage debt throughout the current COVID-19 pandemic. Access to CMHC-insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee and therefore are able to lend at more favorable rates. As at September 30, 2020, approximately 85.8% of Killam's apartment mortgages were CMHC-insured (80.4% of total mortgages, as MHC and commercial mortgages are not eligible for CMHC insurance) (December 31, 2019 - 85.2% and 79.6%). The weighted average interest rate on the CMHC-insured mortgages was 2.65% as at September 30, 2020 (December 31, 2019 - 2.77%).

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

The following tables present the NOI for properties that are available to Killam to refinance at debt maturity in the remainder of 2020 and 2021:

Remaining 2020 Debt Maturities	**Number of Properties**	**Estimated NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	8	$5,276	$46,189
MHCs with debt maturing	2	411	1,900
	10	$5,687	$48,089

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

Future Contractual Debt Obligations

As at September 30, 2020, the timing of Killam's future contractual debt obligations is as follows:

Twelve months ending September 30,	**Mortgage and Loans Payable**	**Construction Loans (1)**	**Credit Facilities (2)**	**Total**
2021	$194,190	$24,975	$—	$219,165
2022	245,414	—	—	245,414
2023	233,303	—	—	233,303
2024	221,525	—	—	221,525
2025	207,453	—	—	207,453
Thereafter	495,879	—	—	495,879
	$1,597,764	**$24,975**	**$—**	**$1,622,739**

(1) Construction loans are demand loans which are expected to be replaced with permanent mortgage financing on development completion lease-up.
(2) Killam's $70 million credit facility expires in December 2020; and this facility includes a one year extension option.

Construction Loans

As at September 30, 2020, Killam had access to four variable rate non-revolving demand construction loans, for the purpose of financing development projects, totaling $103.2 million. As at September 30, 2020, $25.0 million was drawn on the construction loans (December 31, 2020 - $24.9 million). Payments are made monthly on an interest-only basis. The weighted-average contractual interest rate on amounts outstanding at September 30, 2020, was 2.65% (December 31, 2019 - 3.32%). Once construction is complete and rental targets achieved, construction financing will be replaced with permanent mortgage financing.

Management finalized construction financing associated with its Latitude development during Q3-2020.

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

Credit Facilities

Killam has access to two credit facilities with credit limits of $70.0 million ($90.0 million with the accordion feature) and $10.0 million (December 31, 2019 - $70.0 million and $5.0 million) that can be used for acquisition and general business purposes.

The $70.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). The facility includes a $30.0 million demand revolver and a $40.0 million committed revolver as well as an accordion option to increase the $70.0 million facility by an additional $20.0 million. The agreement includes certain covenants and undertakings with which Killam was in compliance as at September 30, 2020. The facility expires in December 2020 and Killam has a one year extension option on the facility.

The $10.0 million demand facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. The agreement includes certain covenants and undertakings with which Killam was in compliance as at September 30, 2020.

As at September 30, 2020	Maximum Loan Amount (1)	Amount Drawn	Letters of Credit	Amount Available
$70.0 million facility	$90,000	$—	$—	$90,000
$10.0 million facility	10,000	—	1,722	8,278
Total	**$100,000**	**$—**	**$1,722**	**$98,278**

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

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

Unitholders’ Equity

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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the trust unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the three and nine months ended September 30, 2020, no unitholders redeemed units.

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

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

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

Distribution Reinvestment Plan and Net Distributions Paid

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
Distributions declared on trust units	**$17,637**	$15,276	15.5%	**$50,998**	$44,820	13.8%
Distributions declared on exchangeable units	**697**	685	1.8%	**2,087**	2,042	2.2%
Distributions declared on awards outstanding under RTU plan	**60**	71	(15.5)%	**180**	211	(14.7)%
Total distributions declared	**$18,394**	$16,032	14.7%	**$53,265**	$47,073	13.2%
Less:						
Distributions on trust units reinvested	**(5,753)**	(4,649)	23.7%	**(15,431)**	(12,527)	23.2%
Distributions on RTUs reinvested	**(60)**	(71)	(15.5)%	**(180)**	(211)	(14.7)%
Net distributions paid	**$12,581**	$11,312	11.2%	**$37,654**	$34,335	9.7%
Percentage of distributions reinvested	**31.6%**	29.4%		**29.3%**	27.1%	

Liquidity and Capital Resources

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

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

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

(ii) Killam currently has access to approximately $98.3 million of capital under its credit facilities. Killam's acquisition capacity on its credit facility is over $200 million.

(iii) Mortgage refinancings and construction loans are expected to be sufficient to fund value-enhancing capex, principal repayments and developments. Killam has $190.0 million of mortgage debt scheduled for refinancing through to the end of 2021, expected to lead to upfinancing opportunities of approximately $60 million.

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

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

Killam is in compliance with all financial covenants contained in the DOT and through its credit facilities. Under the DOT, total indebtedness of Killam is limited to 70% of gross book value determined as the greater of (i) the value of Killam's assets as shown on the most recent condensed consolidated interim statement of financial position and (ii) the historical cost of Killam's assets. Total debt as a percentage of assets as at September 30, 2020 was 43.8%.

Killam has financial covenants on its $70.0 million credit facilities. The covenants require Killam to maintain a leverage limit of not more than 70% of debt to total assets, debt to service coverage of not less than 1.3 times and unitholders equity of not less than $900.0 million. As at November 4, 2020, Killam was in compliance with said covenants.

PART VIII

Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. These are described in detail in the MD&A of Killam's 2019 Annual Report and in Killam's Annual Information Form, both filed on SEDAR. These factors continue to exist and remain relatively unchanged, with the addition of the following:

Pandemic Risk and Economic Downturn
Disruptions in financial markets, regional economies and the world economy could be caused by the pandemic outbreak of a contagious illness, such as COVID-19. In turn, such disruption could adversely affect the ability of Killam's tenants to pay rent and increase Killam's credit risk. In addition, a pandemic outbreak could materially interrupt Killam's supply chain and service providers, which could materially adversely affect Killam's ability to maintain and service its properties. There can be no assurance that a disruption in financial markets, regional economies and the world economy would not negatively affect the financial performance or fair values of Killam's investment properties in a material manner.

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

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

The condensed consolidated interim financial statements should be read in conjunction with Killam's most recently issued Annual Report, which includes information necessary or useful to understanding Killam's business and financial statement presentation. In particular, Killam's significant accounting policies were presented in note 2 to the audited consolidated financial statements for the year ended December 31, 2019, and any changes in the accounting policies applied have been described in note 2 to the condensed consolidated interim financial statements for the three and nine months ended September 30, 2020.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions. Significant areas of judgment, estimates and assumptions are set out in note 3 to the audited consolidated financial statements found in Killam's 2019 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred income taxes.

The condensed consolidated interim financial statements dated September 30, 2020, have been prepared considering the impact that the spread of COVID-19 has and continues to have on local, national and worldwide economies. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Canadian and global stock markets have also experienced great volatility and significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. Killam has considered the negative economic outlook and cash flow difficulties that may be experienced as a result of this virus on its tenants, suppliers and lenders. The ultimate duration and impacts of the COVID-19 pandemic are not currently known, Killam has used the best information available as at September 30, 2020, in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities, and earnings for the period. Actual results could differ from those estimates. Killam considers the estimates that could be most significantly impacted by COVID-19 to include those underlying the valuation of investment properties and the estimated credit losses on accounts receivable.

Disclosure Controls, Procedures and Internal Controls

Management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that Killam's disclosure controls and procedures and internal controls will prevent or detect all error and all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within Killam have been detected. During the most recent interim period, there have been no significant changes to Killam's disclosure controls and procedures or internal controls.

Related Party Transactions

Killam has construction management and development agreements with APM Construction ("APM"), a company owned by Tim Banks, a Trustee of Killam, to provide construction management services related to the Shorefront development and reconstruction of the Harley Street apartment building in PEI. APM will be paid a market rate construction management fee of 2.5% and 4.0% of construction costs for Shorefront and Harley Street. The total expected construction management fee for the two projects is $0.8 million, to be paid over the construction period. The agreements will expire with the completion of the developments, in Q4-2020 (Shorefront) and 2021 (Harley).

In addition, Killam engaged two other companies owned by Tim Banks (MacLean Construction and Storemark) to provide construction services relating to the Shorefront development, including carpentry, siding and millwork. These services were tendered and awarded based on competitive pricing. The value of these contracts totals $2.4 million.

For the three and nine months ended September 30, 2020, this group of companies (APM, MacLean Construction and Storemark) was paid $0.1 million and $0.3 million in construction management fees. Total billing costs related to periods were $0.8 million and $3.0 million. The remaining billing costs include labour and reimbursable costs relating to construction, including arm's-length third party trade contractors.

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

Subsequent Events

On October 15, 2020, Killam announced a distribution of $0.05667 per unit, payable on November 16, 2020, to unitholders of record on October 30, 2020.

On October 19, 2020, Killam waived conditions on the acquisition of a 162-unit apartment building in Moncton, NB for $55.0 million which is scheduled to close in mid-November.

On October 26, 2020, Killam acquired 107 apartment units in Moncton, NB, for $17.6 million. The acquisition was funded with a $13.2 million mortgage and the remainder in cash.

On October 30, 2020, Killam acquired land adjacent its Carlton development project located in Halifax, NS for $1.2 million.