Q2-2020 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 $3.5 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 89.2% of Killam's net operating income ("NOI") for the six months ended June 30, 2020. As at June 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 6.1% of Killam's NOI for the six months ended June 30, 2020. Killam also owns 736,961 square feet (SF) of commercial space that accounted for 4.7% of Killam's NOI for the six months ended June 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 August 5, 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 June 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 23.
- 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 24.
- 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 25. 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 89.4% of the fair value of Killam's investment property portfolio as at June 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 June 30,			Six months ended June 30,		
Operating Performance	**2020**	2019	Change (2)	**2020**	2019	Change (2)
Property revenue	**$64,899**	$59,198	9.6%	**$128,193**	$116,384	10.1%
Net operating income	**$41,516**	$37,510	10.7%	**$79,565**	$71,055	12.0%
Net income	**$21,509**	$82,789	(74.0)%	**$60,011**	$109,880	(45.4)%
FFO (1)	**$26,617**	$23,752	12.1%	**$49,630**	$42,641	16.4%
FFO per unit – diluted (1)	**$0.26**	$0.25	4.0%	**$0.48**	$0.45	6.7%
AFFO (1)	**$22,136**	$19,510	13.5%	**$40,705**	$34,119	19.3%
AFFO per unit – diluted (1)	**$0.22**	$0.20	10.0%	**$0.40**	$0.36	11.1%
Weighted average number of units outstanding – diluted (000s)	**102,620**	95,807	7.1%	**102,489**	93,883	9.2%
Distributions paid per unit (3)	**$0.17**	$0.17	3.0%	**$0.34**	$0.33	3.1%
AFFO payout ratio – diluted (1)	**79%**	81%	(200) bps	**85%**	90%	(500) bps
AFFO payout ratio – rolling 12 months (1)	**80%**	84%	(400) bps			
Portfolio Performance						
Same property NOI (1)	**$37,224**	$36,230	2.7%	**$71,584**	$68,719	4.2%
Same property NOI margin	**64.5%**	63.8%	70 bps	**62.5%**	61.4%	110 bps
Same property apartment occupancy	**96.8%**	97.0%	(20) bps			
Same property apartment weighted average rental increase (4)	**2.9%**	3.2%	(30) bps			

As at	**June 30, 2020**	December 31, 2019	Change (2)
Leverage Ratios and Metrics			
Debt to total assets	**45.3%**	43.4%	190 bps
Weighted average mortgage interest rate	**2.83%**	2.90%	(7) bps
Weighted average years to debt maturity	**4.6**	4.5	0.1 years
Debt to normalized EBITDA (1)	**10.52x**	10.15x	3.6%
Debt service coverage (1)	**1.59x**	1.57x	1.3%
Interest coverage (1)	**3.29x**	3.20x	2.8%

(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 June 30.

Summary of Q2-2020 Results and Operations

Decline in Net Income Driven by Lower Fair Value Gains
Net income decreased by $61.3 million in Q2-2020, compared to Q2-2019, as a result of lower fair value gains. In the second quarter of 2019, Killam recorded $70.4 million of fair value gains on investment properties, as a result of cap-rate compression in its MHC and Ontario portfolios, as well as increased NOI driven by strong rental rate growth. Fair value gains on investment properties in Q2-2020 were $3.6 million, as modest fair value growth on the apartment portfolio was partially offset by a reduction in the valuation of Killam's commercial portfolio.

FFO per Unit Growth of 4.0% and AFFO per Unit Growth of 10.0%
Killam generated FFO per unit of $0.26 in Q2-2020, 4.0% higher than the $0.25 per unit generated in Q2-2019. FFO growth was attributable to increased NOI from strong same property performance and incremental contributions from recent acquisitions and completed developments. This growth was partially offset by a 7.1% increase in the weighted average number of units outstanding from Killam's $114.4 million equity issuance in November 2019.

AFFO per unit increased 10.0% in Q2-2020 to $0.22 compared to $0.20 in Q2-2019. The increase in AFFO per unit is attributable to Killam's same property NOI growth, accretive acquisitions and developments, and the addition of newer, high-quality assets to the portfolio, which require lower maintenance capex.

COVID-19 Impacts Q2 Results
Due to the economic uncertainty facing many Canadians during the onset of the pandemic, Killam waived the collection of rental increases on lease renewals beginning with the April 2020 rental payment. The impact of waiving rental increases, along with reduced revenue at its nine seasonal MHC resorts as a result of delayed openings, salary increases for front-line workers, participation in the Canada Emergency Commercial Rent Assistance (CECRA) program, increased costs associated with cleaning, and an increase in the provision for bad debt expense, management estimates an impact to NOI of approximately $0.8 million related to COVID-19 in the second quarter.

Same Property NOI Growth of 2.7%
Killam achieved 2.7% growth in same property consolidated NOI and a 70 bps improvement in its operating margin during the quarter. This improvement was driven by rental rate growth and modestly lower operating expenses. Operating expenses decreased 0.3%, as higher property tax and general operating expenses were more than offset by a reduction in utility costs, namely lower unit electricity and a decrease in natural gas pricing. Killam's same property apartment NOI increased 3.0% during the second quarter, with New Brunswick and Halifax leading the growth (5.9% and 5.6%).

Rental Rate Growth on Turns
Same property rental rates were up 2.9% as at June 30, 2020, versus June 30, 2019. Despite the current economic environment, demand remains strong for units on turnover with Killam achieving 5.9% rental rate growth on unit turns during Q2-2020. Overall, apartment revenue growth during the quarter was up 2.2%, as strong rental rate growth on turns was offset by the waiving of rental increases in response to the COVID-19 pandemic, a slight uptick in vacancy, and a reduction in revenue at Killam's seasonal resorts. Alberta, Halifax and New Brunswick led the apartment performance, achieving quarter-over-quarter same property apartment revenue increases of 3.5% in Alberta and 3.1% in both Halifax and New Brunswick.

Repositioning Program Continues to Generate Above Average Returns
During Q2-2020, Killam invested $2.7 million in repositionings, completing 180 units. Year-to-date, Killam has completed 275 repositioned units. The average return on investment ("ROI") on unit repositionings completed during the quarter was approximately 13.0%, based on an average renovation cost of $28,000 per unit. Repositioned units completed year-to-date are expected to generate approximately $1.0 million in additional NOI on an annualized basis, and approximately $20.1 million in Net Asset Value ("NAV") growth.

Completed $60 million in Acquisitions Further Expanding into British Columbia Market
On April 30, 2020, Killam added 156 new apartment units to its BC portfolio. This was Killam's second apartment acquisition in the Greater Victoria market. Crossing at Belmont, located in Langford, BC, was acquired for $60.0 million, with an all-cash yield of 4.35%. The property is in the lease-up stage and is currently 90% occupied.

Refinancing at Low Rates Contributed to Earnings Growth
Killam benefited from lower interest rates on mortgages refinanced in Q2-2020. During the quarter, Killam refinanced $45.0 million of maturing mortgages with $58.4 million of new debt at a weighted average interest rate of 1.88%, 42 bps lower than the weighted average rate of the maturing debt.

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. The duration and impact of the pandemic is unknown at this time. 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. As a result, Killam withdrew its 2020 and longer-term strategic targets that were disclosed in the December 31, 2019, year-end MD&A and will continue to reassess these throughout the second half of the year. It is not possible to accurately estimate the length and severity of COVID-19 related impacts on Killam’s financial and operating results.

All Killam's apartment properties, permanent MHCs and the essential retail tenants remained operational during the second 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 in Q2-2020 for lease renewals beginning with the April 2020 rental payment, in addition to the waiving of both NSF and late fees. Looking to Q3-2020, Killam has 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 Q2-2020 remained strong. During the three months ended June 30, 2020, and for the month of July, Killam has collected the following contractual rents:

% Collected[1]	Q2-2020	Jul-2020
Apartments	99.9%	99.3%
MHCs	99.1%	98.7%
Commercial	78.2%	84.6%
Total (weighted average)	98.6%	98.3%

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. During Q2-2020, 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 is also working closely with commercial tenants to complete applications 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 4.7% of Killam's total NOI for the six months ended June 30, 2020. Killam is in the process of filing CECRA applications for approximately 35 commercial tenants and recorded a reduction in commercial revenue of $0.1 million during Q2-2020 related to the program. Killam is also working with tenants that do 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.

Outlook

Positive NOI Growth Expected

Killam's forecasts 2020 same property NOI growth to be impacted by the COVID-19 pandemic, mainly due to the waiving of rental increases, delay in distribution of rental increase notices to tenants, and a reduction in transient revenue at Killam's seasonal resorts (phased reopening plans in New Brunswick and Ontario). Despite these impacts, occupancy remains strong and demand for units on turnover is robust. Killam expects modest NOI growth during the second half of the year.

Commercial

The majority of Killam's commercial tenants, essential and non-essential, were operational by the end of the second quarter with COVID-19 related restrictions and protocols in place. As the COVID-19 pandemic persists, Killam will continue to assist and support its tenants that have been negatively impacted by the pandemic. Despite current restrictions in place, commercial leasing activity has continued.

Liquidity

To-date, mortgage financings and renewals have progressed on schedule without delays as a result of COVID-19. Interest rates on mortgage renewals subsequent to quarter end have averaged 1.3%, 70 bps lower than the weighted average rate of the maturing debt. Killam has $107.8 million of additional mortgage renewals scheduled for the remainder of 2020, with total upfinancing estimated to be approximately $35.0 million. Killam does not expect refinancing challenges with its upcoming mortgage maturities.

Subsequent to the end of Q2-2020, Killam completed a $69.0 million equity raise, with the funds allocated to repay Killam's outstanding line of credit and for acquisitions and developments. Following the close of the equity raise on July 29, 2020, Killam debt to total asset ratio improved by approximately 140 bps to 43.9% and its acquisition capacity exceeds $200.0 million.

Future Growth Opportunities 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 million and an expected weighted average yield of approximately 5.0%. The majority of the capital required for these developments is expected to be 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.

Expanded Suite Repositioning Program

Management is committed to its repositioning program, completing 275 units year-to-date to meet market demand while enhancing revenue growth and the NAV of its portfolio. 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. Killam is targeting the completion of 500 suites during 2020. A review of Killam's portfolio has identified a minimum of 5,000 units having repositioning potential. Killam plans to expand this program on an annual basis.

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 June 30, 2020:

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia				
Halifax	5,814	65	$27,301	34.3%
Sydney	139	2	$689	0.9%
	5,953	67	$27,990	35.2%
New Brunswick				
Moncton	1,804	34	$5,912	7.5%
Fredericton	1,529	23	$5,705	7.2%
Saint John	1,202	14	$3,123	3.9%
Miramichi	96	1	$321	0.4%
	4,631	72	$15,061	19.0%
Ontario				
Ottawa	1,216	9	$5,304	6.7%
London	523	5	$2,657	3.3%
Cambridge-GTA	818	6	$5,496	6.9%
	2,557	20	$13,457	16.9%
Newfoundland & Labrador				
St. John's	915	12	$3,164	4.0%
Grand Falls	148	2	$287	0.3%
	1,063	14	$3,451	4.3%
Prince Edward Island				
Charlottetown	986	19	$3,446	4.3%
Summerside	86	2	$302	0.4%
	1,072	21	$3,748	4.7%
Alberta				
Calgary	531	3	$2,763	3.5%
Edmonton	579	4	$3,006	3.8%
	1,110	7	$5,769	7.3%
British Columbia				
Victoria	315	2	$1,444	1.8%
Total Apartments	**16,701**	**203**	**$70,920**	**89.2%**
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia	2,749	17	$2,400	3.0%
Ontario	2,284	17	$2,282	2.9%
New Brunswick (4)	672	3	$12	—%
Newfoundland & Labrador	170	2	$177	0.2%
Total MHCs	**5,875**	**39**	**$4,871**	**6.1%**
Commercial Portfolio (3)				
	Square Footage (5)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Prince Edward Island	191,511	1	$680	0.8%
Ontario	306,106	1	$2,223	2.8%
Nova Scotia	206,129	4	$648	0.8%
New Brunswick	33,215	1	$223	0.3%
Total Commercial	**736,961**	**7**	**$3,774**	**4.7%**
Total Portfolio		**249**	**$79,565**	**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 six months ended June 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

Q2-2020 Financial Overview

Consolidated Results

For the three months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$64,899**	$59,198	9.6%	**$57,693**	$56,769	1.6%	**$7,206**	$2,429	196.7%
Property operating expenses									
General operating expenses	**9,576**	8,647	10.7%	**8,200**	7,988	2.7%	**1,376**	659	108.8%
Utility and fuel expenses	**5,770**	6,019	(4.1)%	**5,251**	5,803	(9.5)%	**519**	216	140.3%
Property taxes	**8,037**	7,022	14.5%	**7,018**	6,748	4.0%	**1,019**	274	271.9%
Total operating expenses	**$23,383**	$21,688	7.8%	**$20,469**	$20,539	(0.3)%	**$2,914**	$1,149	153.6%
NOI	**$41,516**	$37,510	10.7%	**$37,224**	$36,230	2.7%	**$4,292**	$1,280	235.3%
Operating margin %	**64.0%**	63.4%	60 bps	**64.5%**	63.8%	70 bps	**59.6%**	52.7%	690 bps

For the six months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$128,193**	$116,384	10.1%	**$114,506**	$111,874	2.4%	**$13,687**	$4,510	203.5%
Property operating expenses									
General operating expenses	**19,517**	17,671	10.4%	**16,927**	16,575	2.1%	**2,590**	1,096	136.3%
Utility and fuel expenses	**13,246**	13,773	(3.8)%	**12,129**	13,300	(8.8)%	**1,117**	473	136.2%
Property taxes	**15,865**	13,885	14.3%	**13,866**	13,280	4.4%	**1,999**	605	230.4%
Total operating expenses	**$48,628**	$45,329	7.3%	**$42,922**	$43,155	(0.5)%	**$5,706**	$2,174	162.5%
NOI	**$79,565**	$71,055	12.0%	**$71,584**	$68,719	4.2%	**$7,981**	$2,336	241.7%
Operating margin %	**62.1%**	61.1%	100 bps	**62.5%**	61.4%	110 bps	**58.3%**	51.8%	650 bps

For the three and six months ended June 30, 2020, Killam recognized strong overall portfolio performance, revenue grew 9.6% and 10.1%, partially offset by total operating expense increases of 7.8% and 7.3%, due to same property portfolio growth and the increased size of Killam's overall portfolio. In aggregate, NOI increased 10.7% and 12.0% for the three and six months ended June 30, 2020.

Same property results included properties owned during comparable 2020 and 2019 periods. Same property results represent 89.4% of the fair value of Killam's investment property portfolio as at June 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 1.6% and 2.4% for three and six months ended June 30, 2020, as compared to the same periods of 2019. Same property revenue growth in Q2-2020 was lower this quarter as Killam waived rental increases upon lease renewal throughout Q2-2020, participated in the CECRA program for commercial tenants and experienced lower transient revenue at its seasonal resorts. Despite these short-term pandemic related impacts, the strength of rental rate growth on unit turns and continued strength in Killam's core markets generated overall same property revenue growth.

Total same property operating expenses decreased 0.3% for the three months ended June 30, 2020. This reduction was driven by a 9.5% 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. These utility expense savings in the quarter were partially offset by a 2.7% increase in general operating expenses and a 4.0% increase in property taxes as a result of higher assessments, which Killam actively appeals whenever possible.

Total same property operating expenses decreased 0.5% for the six months ended June 30, 2020, as an 8.8% decrease in utility and fuel expenses was offset by a 2.1% increase in general operating expenses, and a 4.4% increase in property taxes. Overall, same property NOI grew by 2.7% and 4.2% for the three and six months ended June 30, 2020.

Overall, during Q2-2020, Killam experienced lower NOI growth due to the impact of the COVID-19 pandemic. This included the impact of waiving rental rate increases, loss of transient revenue, participation in the CECRA program for commercial tenants, salary increases for front-line workers, and increased cleaning fees. Management estimates the impact of COVID-19 on same property NOI in Q2-2020 was approximately $0.8 million. Excluding the impact of COVID-19, same property NOI growth would have been greater than 5.0%.

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

Apartment Results

For the three months ended June 30,

	Total			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$56,618**	$51,552	9.8%	**$51,380**	$50,252	2.2%	**$5,238**	$1,300	302.9%
Property operating expenses									
General operating expenses	**7,913**	7,043	12.4%	**7,233**	6,753	7.1%	**680**	290	134.5%
Utility and fuel expenses	**5,225**	5,540	(5.7)%	**4,923**	5,466	(9.9)%	**302**	74	308.1%
Property taxes	**6,961**	6,114	13.9%	**6,355**	6,134	3.6%	**606**	(20)	(3,130.0)%
Total operating expenses	**$20,099**	$18,697	7.5%	**$18,511**	$18,353	0.9%	**$1,588**	$344	361.6%
NOI	**$36,519**	$32,855	11.2%	**$32,869**	$31,899	3.0%	**$3,650**	$956	281.8%
Operating margin %	**64.5%**	63.7%	80 bps	**64.0%**	63.5%	50 bps	**69.7%**	73.5%	(380) bps

For the six months ended June 30,

	Total			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$112,708**	$102,584	9.9%	**$102,979**	$100,155	2.8%	**$9,729**	$2,429	300.5%
Property operating expenses									
General operating expenses	**16,075**	14,515	10.7%	**14,827**	14,117	5.0%	**1,248**	398	213.6%
Utility and fuel expenses	**11,977**	12,706	(5.7)%	**11,367**	12,528	(9.3)%	**610**	178	242.7%
Property taxes	**13,736**	12,149	13.1%	**12,567**	12,058	4.2%	**1,169**	91	1,184.6%
Total operating expenses	**$41,788**	$39,370	6.1%	**$38,761**	$38,703	0.1%	**$3,027**	$667	353.8%
NOI	**$70,920**	$63,214	12.2%	**$64,218**	$61,452	4.5%	**$6,702**	$1,762	280.4%
Operating margin %	**62.9%**	61.6%	130 bps	**62.4%**	61.4%	100 bps	**68.9%**	72.5%	(360) bps

Apartment Revenue

Total apartment revenue for the three and six months ended June 30, 2020, was $56.6 million and $112.7 million, an increase of 9.8% and 9.9%, 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 2.2% and 2.8% for the three and six months ended June 30, 2020, driven by increased rental rates, slightly offset by a 20 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, with only a small number of properties experiencing higher than normal vacancies.

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

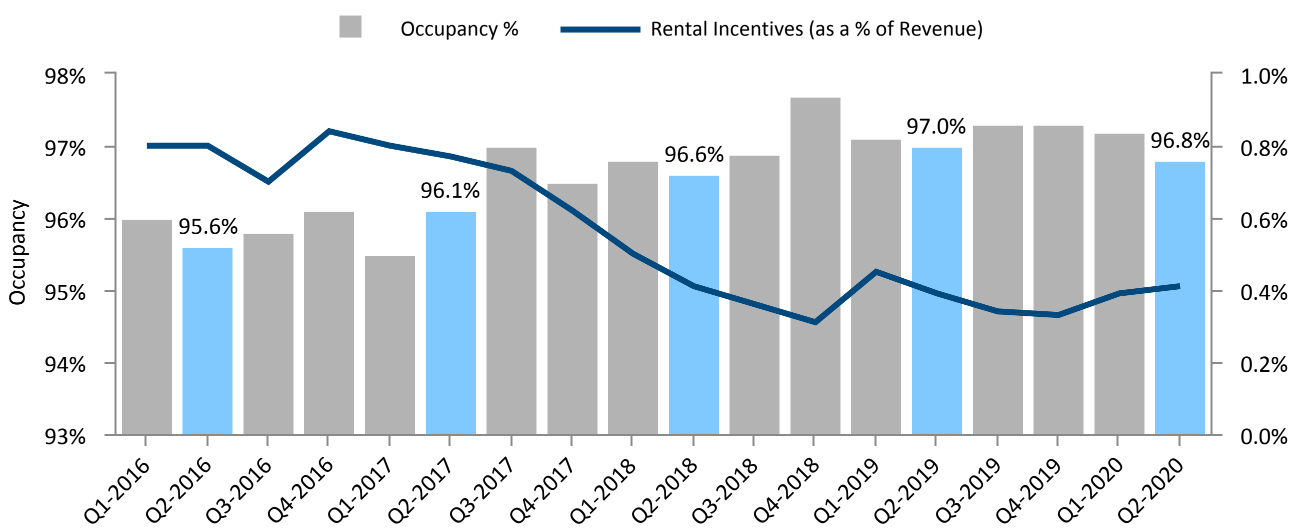
Apartment Occupancy Analysis by Core Market (% of Residential Rent) (1)

For the three months ended June 30,	# of Units	Total Occupancy 2020	2019	Change (bps)	Same Property Occupancy 2020	2019	Change (bps)
Nova Scotia							
Halifax	5,814	**97.8%**	97.9%	(10)	**97.8%**	97.9%	(10)
Ontario							
Ottawa (2)	1,216	**94.2%**	93.1%	110	**93.7%**	97.0%	(330)
London	523	**95.0%**	96.2%	(120)	**95.0%**	96.2%	(120)
Cambridge-GTA	818	**98.5%**	98.7%	(20)	**98.6%**	98.6%	—
New Brunswick							
Moncton	1,804	**98.7%**	98.4%	30	**98.7%**	98.4%	30
Fredericton	1,529	**97.9%**	97.5%	40	**98.1%**	97.5%	60
Saint John	1,202	**96.5%**	97.2%	(70)	**96.5%**	97.2%	(70)
Newfoundland and Labrador							
St. John's	915	**88.0%**	91.5%	(350)	**88.0%**	91.5%	(350)
Prince Edward Island							
Charlottetown	986	**99.4%**	99.3%	10	**99.4%**	99.2%	20
Alberta							
Calgary	531	**94.2%**	94.0%	20	**94.6%**	94.2%	40
Edmonton	579	**93.0%**	88.1%	490	**94.6%**	88.1%	650
British Columbia							
Victoria	315	**91.6%**	N/A	N/A	**N/A**	N/A	N/A
Other Atlantic	469	**94.0%**	97.5%	(350)	**94.0%**	97.5%	(350)
Total Apartments (weighted average)	**16,701**	**96.5%**	96.7%	(20)	**96.8%**	97.0%	(20)

(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 15 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 June 30,

		Average Rent (1)			Same Property Average Rent (1)		
	# of Units	**2020**	2019	% Change	**2020**	2019	% Change
Nova Scotia							
Halifax	5,814	**$1,155**	$1,116	3.5%	**$1,155**	$1,116	3.5%
Ontario							
Ottawa	1,216	**$1,764**	$1,724	2.3%	**$1,726**	$1,677	2.9%
London	523	**$1,330**	$1,288	3.3%	**$1,330**	$1,288	3.3%
Cambridge-GTA	818	**$1,511**	$1,458	3.6%	**$1,524**	$1,471	3.6%
New Brunswick							
Moncton	1,804	**$935**	$901	3.8%	**$903**	$876	3.1%
Fredericton	1,529	**$1,030**	$983	4.8%	**$1,013**	$975	3.9%
Saint John	1,202	**$854**	$824	3.6%	**$854**	$824	3.6%
Newfoundland and Labrador							
St. John's	915	**$997**	$985	1.2%	**$997**	$985	1.2%
Prince Edward Island							
Charlottetown	986	**$1,018**	$1,020	(0.2)%	**$1,018**	$1,004	1.4%
Alberta							
Calgary	531	**$1,254**	$1,228	2.1%	**$1,280**	$1,253	2.2%
Edmonton	579	**$1,478**	$1,452	1.8%	**$1,444**	$1,452	(0.6)%
British Columbia							
Victoria	315	**$1,716**	N/A	N/A	**N/A**	N/A	N/A
Other Atlantic	469	**$915**	$900	1.7%	**$915**	$900	1.7%
Total Apartments (weighted average)	**16,701**	**$1,149**	$1,097	4.7%	**$1,124**	$1,092	2.9%

(1) Killam's average rent growth as at June 30, 2020 compared to June 30, 2019 represents the rent charged to tenants, net of COVID related adjustments. As noted, due to the economic uncertainty facing many Canadians as a result of the pandemic, Killam waived the collection of rental increases in the second quarter. This resulted in a reduction of property revenue of approximately $0.2 million. Without the waiving of rental increases, same property average rent growth for Q2-2020 would have been 3.5%, based on contractual rates.

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. Upon turn, Killam will typically generate rental increases by moving rental rates to market and, where market demand exists, by upgrading units for returns of 10%–15% on capital invested. Killam has increased its same property weighted average rental increases by 30 bps to 3.5% in the first six months of 2020, compared to 3.2% for the same period of 2019.

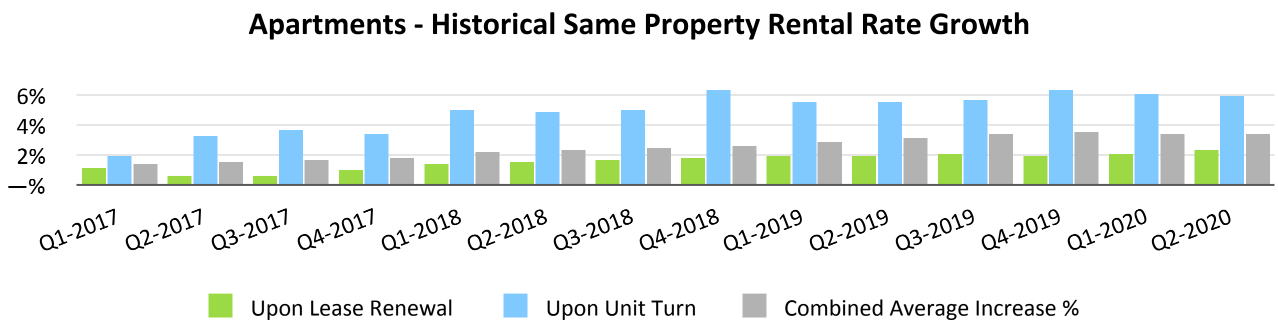
The following chart details the contractual average rental increases realized upon turns and lease renewals on a same property basis. The increase on lease renewal is typically delivered three to four months prior to lease expiry. For clarification, the increases noted below exclude the COVID related adjustments pertaining to the waiver of rental increases in Q2-2020. Killam expects to begin collection of these increases for the majority of the portfolio beginning in August 2020.

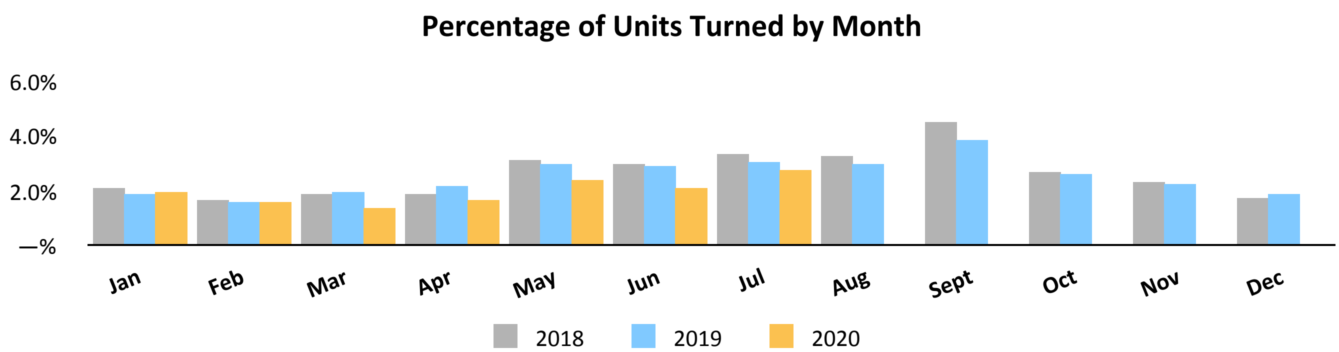
	For the three months ended June 30,				For the six months ended June 30,			
	2020		**2019**		**2020**		**2019**	
	Rental Increases	Turnovers & Renewals (1)	Rental Increases	Turnovers & Renewals (1)	Rental Increases	Turnovers & Renewals (1)	Rental Increases	Turnovers & Renewals (1)
Lease renewal	**2.4%**	**80.4%**	2.1%	72.5%	**2.3%**	**80.0%**	2.0%	74.5%
Unit turn – regular	**5.9%**	**17.2%**	5.7%	25.8%	**6.0%**	**17.3%**	5.6%	24.0%
Unit turn – repositioned	**28.8%**	**2.4%**	30.8%	1.7%	**28.6%**	**2.7%**	30.0%	1.5%
Rental increase (weighted avg)	**3.5%**		3.4%		**3.5%**		3.2%	

(1) The percentage of total units renewed and turned during the three and six months ended June 30, 2020, was 25.4% and 45.1% (June 30, 2019 - 27.0% and 47.5%).

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

The following chart summarizes the weighted-average rental rate increases achieved by quarter on lease turns and renewals.





Apartment Expenses

Total operating expenses for the three and six months ended June 30, 2020, were $20.1 million and $41.8 million, a 7.5% and 6.1% 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. Killam's apartment operating margin increased by 80 bps quarter-over-quarter and 130 bps year-to-date, as lower utility costs and revenue optimization more than offset incremental operating costs.

Total same property operating expenses for the three and six months ended June 30, 2020, were 0.9% and 0.1% higher than the same periods of 2019. The increase was driven by general operating cost increases of 7.1% and 5.0% for the three and six months ended June 30, 2020, largely due to increased wages for front-line staff, higher insurance premiums, and property tax expense increases of 3.6% and 4.2%, over the same periods of 2019. These increases were partially offset by decreased utility costs of 9.9% and 9.3% for the three and six months ended June 30, 2020, due to lower natural gas pricing and consumption savings as a result of energy efficiency initiatives and lower unit electricity costs. In total, the same property operating margin improved by 50 bps and 100 bps during the three and six months ended June 30, 2020.

Apartment Utility and Fuel Expenses – Same Property

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
Natural gas	**$1,560**	$1,985	(21.4)%	**$4,059**	$4,986	(18.6)%
Electricity	**1,844**	1,912	(3.6)%	**3,980**	4,152	(4.1)%
Water	**1,322**	1,219	8.4%	**2,672**	2,502	6.8%
Oil & propane	**180**	334	(46.1)%	**625**	859	(27.2)%
Other	**17**	16	6.3%	**31**	29	6.9%
Total utility and fuel expenses	**$4,923**	$5,466	(9.9)%	**$11,367**	$12,528	(9.3)%

Killam's apartments are heated with natural gas (58%), electricity (32%), oil (6%), 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.

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

Utility and fuel expenses accounted for approximately 27% and 29% of Killam's total apartment same property operating expenses for the three and six months ended June 30, 2020. Total same property utility and fuel expenses decreased 9.9% and 9.3% for the three and six months ended June 30, 2020.

Same property natural gas expense decreased by 21.4% and 18.6% for the three and six months ended June 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 a 9% decline in that province year-to-date.

Electricity costs were 3.6% and 4.1% lower for the three and six months ended June 30, 2020, primarily due to consumption savings from LED lighting retrofits, more than offsetting rising rates, as well as a reduction of unit electricity being included as part of a tenant's monthly rent in certain regions given strong market fundamentals.

Water expense increased by 8.4% and 6.8% for the three and six months ended June 30, 2020, due to municipal water rate increases across Killam's regions, and increased consumption as a result of COVID-19.

Heating oil and propane costs decreased by 46.1% and 27.2% for the three and six months ended June 30, 2020, compared to the same periods of 2019, as a result of decreases in oil prices coupled with increased efficiencies from boiler upgrades and switching to natural gas at certain properties.

Apartment Same Property NOI by Region

Three months ended June 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Nova Scotia									
Halifax	**$20,287**	$19,669	3.1%	**($6,848)**	($6,948)	(1.4)%	**$13,439**	$12,721	5.6%
	20,287	19,669	3.1%	**(6,848)**	(6,948)	(1.4)%	**13,439**	12,721	5.6%
Ontario									
Ottawa	**3,173**	3,220	(1.5)%	**(1,055)**	(984)	7.2%	**2,118**	2,236	(5.3)%
London	**2,000**	1,952	2.5%	**(705)**	(649)	8.6%	**1,295**	1,303	(0.6)%
Cambridge-GTA	**3,652**	3,579	2.0%	**(1,142)**	(1,065)	7.2%	**2,510**	2,514	(0.2)%
	8,825	8,751	0.8%	**(2,902)**	(2,698)	7.6%	**5,923**	6,053	(2.1)%
New Brunswick									
Moncton	**4,636**	4,529	2.4%	**(2,055)**	(2,047)	0.4%	**2,581**	2,482	4.0%
Fredericton	**4,410**	4,228	4.3%	**(1,728)**	(1,693)	2.1%	**2,682**	2,535	5.8%
Saint John	**3,080**	2,999	2.7%	**(1,401)**	(1,460)	(4.0)%	**1,679**	1,539	9.1%
	12,126	11,756	3.1%	**(5,184)**	(5,200)	(0.3)%	**6,942**	6,556	5.9%
Newfoundland & Labrador									
St. John's	**2,439**	2,505	(2.6)%	**(845)**	(766)	10.3%	**1,594**	1,739	(8.3)%
	2,439	2,505	(2.6)%	**(845)**	(766)	10.3%	**1,594**	1,739	(8.3)%
Prince Edward Island									
Charlottetown	**2,973**	2,925	1.6%	**(1,112)**	(1,135)	(2.0)%	**1,861**	1,790	4.0%
	2,973	2,925	1.6%	**(1,112)**	(1,135)	(2.0)%	**1,861**	1,790	4.0%
Alberta									
Calgary	**1,451**	1,491	(2.7)%	**(466)**	(441)	5.7%	**985**	1,050	(6.2)%
Edmonton	**1,975**	1,819	8.6%	**(678)**	(692)	(2.0)%	**1,297**	1,127	15.1%
	3,426	3,310	3.5%	**(1,144)**	(1,133)	1.0%	**2,282**	2,177	4.8%
Other Atlantic locations	**1,304**	1,336	(2.4)%	**(476)**	(473)	0.6%	**828**	863	(4.1)%
	$51,380	$50,252	2.2%	**($18,511)**	($18,353)	0.9%	**$32,869**	$31,899	3.0%

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

Six months ended June 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Nova Scotia									
Halifax	**$40,697**	$39,190	3.8%	**($14,428)**	($14,667)	(1.6)%	**$26,269**	$24,523	7.1%
	40,697	39,190	3.8%	**(14,428)**	(14,667)	(1.6)%	**26,269**	24,523	7.1%
Ontario									
Ottawa	**6,323**	6,425	(1.6)%	**(2,118)**	(2,053)	3.2%	**4,205**	4,372	(3.8)%
London	**4,054**	3,896	4.1%	**(1,425)**	(1,329)	7.2%	**2,629**	2,567	2.4%
Cambridge-GTA	**7,274**	7,088	2.6%	**(2,363)**	(2,202)	7.3%	**4,911**	4,886	0.5%
	17,651	17,409	1.4%	**(5,906)**	(5,584)	5.8%	**11,745**	11,825	(0.7)%
New Brunswick									
Moncton	**9,281**	8,996	3.2%	**(4,195)**	(4,272)	(1.8)%	**5,086**	4,724	7.7%
Fredericton	**8,815**	8,479	4.0%	**(3,593)**	(3,627)	(0.9)%	**5,222**	4,852	7.6%
Saint John	**6,158**	5,957	3.4%	**(3,038)**	(3,195)	(4.9)%	**3,120**	2,762	13.0%
	24,254	23,432	3.5%	**(10,826)**	(11,094)	(2.4)%	**13,428**	12,338	8.8%
Newfoundland & Labrador									
St. John's	**4,920**	4,993	(1.5)%	**(1,732)**	(1,578)	9.8%	**3,188**	3,415	(6.6)%
	4,920	4,993	(1.5)%	**(1,732)**	(1,578)	9.8%	**3,188**	3,415	(6.6)%
Prince Edward Island									
Charlottetown	**5,947**	5,847	1.7%	**(2,498)**	(2,459)	1.6%	**3,449**	3,388	1.8%
	5,947	5,847	1.7%	**(2,498)**	(2,459)	1.6%	**3,449**	3,388	1.8%
Alberta									
Calgary	**2,947**	2,969	(0.7)%	**(949)**	(933)	1.7%	**1,998**	2,036	(1.9)%
Edmonton	**3,946**	3,649	8.1%	**(1,411)**	(1,348)	4.7%	**2,535**	2,301	10.2%
	6,893	6,618	4.2%	**(2,360)**	(2,281)	3.5%	**4,533**	4,337	4.5%
Other Atlantic locations	**2,617**	2,666	(1.8)%	**(1,011)**	(1,040)	(2.8)%	**1,606**	1,626	(1.2)%
	$102,979	$100,155	2.8%	**($38,761)**	($38,703)	0.1%	**$64,218**	$61,452	4.5%

Halifax

Halifax is Killam's largest rental market, contributing approximately 41% of apartment same property NOI for the three and six months ended June 30, 2020. Same property apartment revenue increased 3.1% and 3.8% for the three and six months ended June 30, 2020, as a result of a 3.5% increase in average rental rates, a slight reduction in incentives and stable occupancy. The impact of waiving rental increases effective during Q2-2020 in Killam's largest market was approximately $0.1 million.

Total operating expenses for the three and six months ended June 30, 2020 were 1.4% and 1.6% lower than the same periods of 2019. The decreased expense was driven by lower natural gas and fuel costs as a result of decreases in commodity pricing, and lower repairs and maintenance costs. The net impact was a 5.6% and 7.1% increase in NOI for the three and six months ended June 30, 2020.

Ontario

Killam's Ontario portfolio generated approximately 18% of apartment same property NOI for the three and six months ended June 30, 2020. Revenue increased by 0.8% and 1.4% for the three and six months ended June 30, 2020, driven by a 3.1% increase in average rental rates, partially offset by a decrease in occupancy in Ottawa and London.

Total operating expenses increased 7.6% and 5.8% for the three and six months ended June 30, 2020, compared to the same periods of 2019. This was primarily due to higher wages as a result of staffing turnover in 2019, increased realty taxes and increased utility expenses. In aggregate, same property NOI decreased 2.1% and 0.7% for the three and six months ended June 30, 2020.

The Ottawa market experienced a notable decrease in property revenue during the first half of the year. A decline of 330 bps in occupancy was driven by newly completed competition that came to market in Kanata, adjacent Killam's Kanata Lakes portfolio. This new product has now been absorbed, however, COVID-19 has reduced leasing traffic. Killam also experienced higher than average vacancy at two other properties located in Ottawa in Q2-2020; both of which were fully leased in July.

Killam also experienced vacancy in the London market during Q2-2020, resulting in a decline of 120 bps in occupancy quarter-over-quarter. This is attributable to a property with a high student tenant mix with turnover that peaks annually in May, which was further impacted by COVID-19.

New Brunswick

Killam's apartments in Moncton, Fredericton and Saint John accounted for approximately 21% of apartment same property NOI for the three and six months ended June 30, 2020. In aggregate, same property revenue increased 3.1% and 3.5% for the three and six months ended June 30, 2020, following rental rate growth in Moncton, Fredericton and Saint John of 3.1%, 3.9% and 3.6%, respectively, partially offset by lower occupancy in Saint John during the quarter.

Total operating expenses were 0.3% and 2.4% lower for the three and six months ended June 30, 2020, compared to the same periods of 2019. Decreased utilities as a result of lower natural gas pricing and reduced unit electricity costs were partially offset by higher insurance premiums and realty taxes. Overall, New Brunswick achieved an impressive 5.9% and 8.8% increase in same property NOI for the three and six months ended June 30, 2020.

Newfoundland and Labrador

Killam's St. John's properties accounted for approximately 5% of apartment same property NOI for the three and six months ended June 30, 2020. Same property revenue decreased 2.6% and 1.5% for the three and six months ended June 30, 2020, as compared to the same periods of 2019. While rental rates have increased by 1.2%, occupancy was 350 bps lower during the quarter. Lower occupancy in the region is due to economic pressure which 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 six months ended June 30, 2020, were 10.3% and 9.8% 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 8.3% and 6.6% lower for the three and six months ended June 30, 2020.

Prince Edward Island

Killam's Charlottetown portfolio contributed approximately 5% of apartment same property NOI for the three and six months ended June 30, 2020. Charlottetown achieved 1.6% and 1.7% revenue growth for the three and six months ended June 30, 2020, from rental rate growth of 1.4%.

Total operating expenses for the three months ended June 30, 2020, were 2.0% lower compared to Q2-2019, primarily due to decreased lower oil pricing and lower repairs and maintenance costs. Total operating expenses for the six months ended June 30, 2020, were 1.6% higher compared to the same period of 2019. The increase in operating expenses year-to-date was primarily due to higher realty taxes slightly offset by lower oil costs. Overall, Charlottetown saw a 4.0% and 1.8% increase in NOI for the three and six months ended June 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 six months ended June 30, 2020. Calgary same property revenue decreased 2.7% and 0.7% for the three and six months ended June 30, 2020, compared to the same periods of 2019, despite rental rate growth of 2.2% and a 40 bps increase in occupancy, due to increased rental incentive offerings and decreased parking revenue. Total operating expenses for the three and six months ended June 30, 2020, increased 5.7% and 1.7%, due to increased staffing costs and higher realty taxes. Overall, Calgary saw decreased NOI of 6.2% and 1.9% for the three and six months ended June 30, 2020.

Killam's Edmonton portfolio accounted for 4% of apartment same property NOI for the three and six months ended June 30, 2020. Same property revenues increased 8.6% and 8.1%, as a result of a 650 bps increase in occupancy, and slightly lower incentive offerings. Total operating expenses for the three months ended June 30, 2020, decreased 2.0%, primarily due to lower repairs and maintenance costs and decreased utility expenses. Total operating expenses increased 4.7% for the six months ended June 30, 2020. The increase in operating expenses year-to-date was primarily due to higher realty taxes, the addition of on-site leasing staff and increased repairs and maintenance costs. Overall, Edmonton achieved increased NOI of 15.1% and 10.2% for the three and six months ended June 30, 2020.

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

MHC Results

For the three months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$4,528**	$4,434	2.1%	**$4,290**	$4,428	(3.1)%	**$238**	$6	N/A
Property operating expenses	**1,368**	1,465	(6.6)%	**1,241**	1,432	(13.3)%	**127**	33	N/A
NOI	**$3,160**	$2,969	6.4%	**$3,049**	$2,996	1.8%	**$111**	($27)	N/A
Operating margin %	**69.8%**	67.0%	280 bps	**71.1%**	67.7%	340 bps	**46.6%**	—%	—

For the six months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$7,727**	$7,543	2.4%	**$7,484**	$7,542	(0.8)%	**$243**	$1	N/A
Property operating expenses	**2,856**	2,923	(2.3)%	**2,685**	2,863	(6.2)%	**171**	60	N/A
NOI	**$4,871**	$4,620	5.4%	**$4,799**	$4,679	2.6%	**$72**	($59)	N/A
Operating margin %	**63.0%**	61.2%	180 bps	**64.1%**	62.0%	210 bps	**29.6%**	—%	—

The MHC business generated 6.1% of Killam's NOI for the six months ended June 30, 2020. The MHC portfolio generates its highest revenues and NOI during the second and third quarters of each year due to the contribution from its nine seasonal resorts that usually earn approximately 60% of their NOI between July and September. Overall, the MHC portfolio generated same property NOI growth of 1.8% and 2.6% for the three and six months ended June 30, 2020. Excluding seasonal resorts, the MHC portfolio generated same property NOI growth of 5.4% and 4.4% for the three and six months ended June 30, 2020.

MHC same property revenue decreased 3.1% and 0.8% for the three and six months ended June 30, 2020, compared to the same periods of 2019, as a result of decreased revenue at Killam's seasonal resorts. During Q2-2020, 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 10.8% and 9.1% decrease in revenue for the three and six months ended June 30, 2020, compared to the same periods of 2019.

The reduction in seasonal revenue was partially offset but lower same property operating expenses which decreased by 13.3% and 6.2% for the three and six months ended June 30, 2020. This decrease was primarily due to lower salaries at seasonal resorts, as well as decreased repairs and maintenance and administration costs.

Permanent MHC rents rose by 2.4%, to $261 per site from $255 per site in Q2-2020 and occupancy was 97.7%, compared to 97.8% in Q2-2019.

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

Commercial Results

For the three months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$3,753**	$3,212	16.8%	**$2,023**	$2,088	(3.1)%	**$1,730**	$1,124	53.9%
Property operating expenses	**1,916**	1,526	25.6%	**717**	753	(4.8)%	**1,199**	773	55.1%
NOI	**$1,837**	$1,686	9.0%	**$1,306**	$1,335	(2.2%)	**$531**	$351	51.3%

For the six months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$7,758**	$6,257	24.0%	**$4,043**	$4,176	(3.2)%	**$3,715**	$2,081	78.5%
Property operating expenses	**3,984**	3,036	31.2%	**1,476**	1,589	(7.1)%	**2,508**	1,447	73.3%
NOI	**$3,774**	$3,221	17.2%	**$2,567**	$2,587	(0.8)%	**$1,207**	$634	90.4%

Killam's commercial property portfolio contributed $3.8 million, or 4.7%, of Killam's total NOI for the six months ended June 30, 2020. Killam's commercial property portfolio contains 736,961 SF, located in four of Killam's core markets. Commercial same property results represent 46.4% of Killam's commercial square footage and consist of Westmount Place located in Waterloo and two 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 88.6% at the end of Q2-2020. Occupancy levels reflect the continued redevelopment of the Brewery Market in Halifax, which is currently 79.5% leased. The decline in same property commercial revenue was driven by participation in the CERCA program and a slight uptick in vacancy.

Killam is in the process of filing CECRA applications for approximately 35 commercial tenants and recorded a reduction in commercial revenue of $0.1 million during Q2-2020 related to the program. Killam is also working with tenants that do 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 June 30,			Six months ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
	$137	$270	(49.3)%	**$319**	$466	(31.5)%

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 49.3% and 31.5% decrease for the three and six months ended June 30, 2020, was due primarily to leasing fees which were earned in Q2-2019 related to the initial lease up of Frontier.

Financing Costs

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
Mortgage, loan and construction loan interest	**$11,082**	$10,239	8.2%	**$21,905**	$20,429	7.2%
Interest on credit facilities	**202**	89	127.0%	**539**	538	0.2%
Interest on exchangeable units	**698**	685	1.9%	**1,390**	1,357	2.4%
Amortization of deferred financing costs	**788**	740	6.5%	**1,532**	1,636	(6.4)%
Amortization of fair value adjustments on assumed debt	**(5)**	34	(114.7)%	**19**	75	(74.7)%
Unrealized loss on derivative liability	**52**	118	(55.9)%	**495**	312	58.7%
Interest on lease liabilities	**96**	72	33.3%	**193**	145	33.1%
Capitalized interest	**(620)**	(610)	1.6%	**(1,195)**	(1,284)	(6.9)%
	$12,293	$11,367	8.1%	**$24,878**	$23,208	7.2%

Total financing costs increased $0.9 million, or 8.1%, and $1.7 million, or 7.2% for the three and six months ended June 30, 2020, as compared to the same periods of 2019.

Mortgage, loan and construction loan interest expense was $11.1 million and $21.9 million for the three and six months ended June 30, 2020, an increase of $0.8 million, or 8.2%, and $1.5 million, or 7.2%, compared to the same periods of 2019. Killam's mortgage, loan and construction loan liability balance increased by $143.4 million over the past twelve months as Killam up financed certain existing portfolio's maturing mortgages and obtained financing for acquisitions and developments. The average interest rate on refinancings for the six months ended June 30, 2020, was 2.17%, 61 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 6.5% quarter-over-quarter and decreased 6.4% year-to-date, following mortgage refinancings and debt 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 was relatively flat quarter-over-quarter and decreased $0.1 million for the six months ended June 30, 2020, compared to the same period 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 June 30,			Six months ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
	$169	$168	0.6%	**$316**	$325	(2.8)%

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 June 30,			Six months ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
Administration	**$3,448**	$3,436	0.3%	**$7,198**	$7,299	(1.4)%
As a percentage of total revenues	**5.3%**	5.8%	(50) bps	**5.6%**	6.2%	(60) 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 months ended June 30, 2020, total administration expenses increased slightly by 0.3%. For the six months ended June 30, 2020, total administration expenses decreased $0.1 million, or 1.4%, compared to the same period of 2019, due to lower restricted trust unit ("RTU") expense and salary costs. Administration expenses as a percentage of total revenues was 5.3% for Q2-2020, 50 bps lower than Q2-2019.

Fair Value Adjustments

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
Investment properties	**$3,638**	$70,440	(94.8)%	**$3,646**	$97,835	(96.3)%
Deferred unit-based compensation	**(276)**	87	(417.2)%	**225**	(1,153)	119.5%
Exchangeable units	**(7,131)**	2,535	(381.3)%	**5,994**	(11,837)	150.6%
	($3,769)	$73,062	(105.2)%	**$9,865**	$84,845	(88.4)%

Killam recognized $3.6 million in fair value gains related to investment properties for the three and six months ended June 30, 2020, compared to $70.4 million and $97.8 million in fair value gains for the three and six months ended June 30, 2019. During Q2-2020, Killam recognized a fair value gain of $16.1 million related to the apartment portfolio due to strong demand for units and increased NOI, partially offset by a fair value loss on its commercial properties of $7.6 million and land held for sale of $4.0 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 June 30, 2020, there was an unrealized fair value loss of $0.3 million, compared to a $0.1 million gain in Q2-2019. For the six months ended June 30, 2020, there was an unrealized fair value gain of $0.2 million, versus a $1.2 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 June 30, 2020, there was an unrealized loss on remeasurement of $7.1 million, compared to an unrealized gain of $2.5 million in the same period of 2019. The unrealized loss in the quarter reflects an increase in Killam's unit price as at June 30, 2020, compared to March 31, 2020. For the six months ended June 30, 2020, there was an unrealized gain of $6.0 million, compared to an unrealized loss of $11.8 million in the same period of 2019, due to a changes in the market price of Killam's trust units.

Deferred Tax Expense (Recovery)

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
	$465	$12,088	(96.2)%	**($2,654)**	$14,660	(118.1)%

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 $11.6 million and $17.3 million for the three and six months ended June 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 quarter-over-quarter.

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 June 30,
	Three months ended June 30,			Six months ended June 30,			
	2020	2019	% Change	**2020**	2019	% Change	**2020**
Trust units	**98,357**	91,458	7.5%	**98,197**	89,535	9.7%	**98,508**
Exchangeable units	**4,103**	4,154	(1.2)%	**4,128**	4,154	(0.6)%	**4,102**
Basic number of units	**102,460**	95,612	7.2%	**102,325**	93,689	9.2%	**102,610**
Plus:							
Units under RTU plan	**160**	213	(24.9)%	**164**	194	(15.5)%	—
Diluted number of units	**102,620**	95,825	7.1%	**102,489**	93,883	9.2%	—

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 six months ended June 30, 2020 and 2019 are calculated as follows:

	Three months ended June 30,			**Six months ended June 30,**		
	2020	2019	% Change	**2020**	2019	% Change
Net income	**$21,509**	$82,789	(74.0)%	**$60,011**	$109,880	(45.4)%
Fair value adjustments	**3,769**	(73,062)	(105.2)%	**(9,865)**	(84,845)	(88.4)%
Non-controlling interest	**(5)**	(7)	(28.6)%	**(8)**	(10)	(20.0)%
Internal commercial leasing costs	**81**	79	2.5%	**162**	159	1.9%
Deferred tax expense (recovery)	**465**	12,088	(96.2)%	**(2,654)**	14,660	(118.1)%
Interest expense on exchangeable units	**698**	685	1.9%	**1,390**	1,357	2.4%
Loss on disposition	**—**	994	(100.0)%	**—**	994	(100.0)%
Unrealized loss on derivative liability	**52**	118	(55.9)%	**495**	312	(58.7)%
Depreciation on owner-occupied building	**40**	36	11.1%	**83**	71	16.9%
Change in principal related to lease liabilities	**8**	32	(75.0)%	**16**	63	(74.6)%
FFO	**$26,617**	$23,752	12.1%	**$49,630**	$42,641	16.4%
FFO per unit – basic	**$0.26**	$0.25	4.0%	**$0.49**	$0.46	6.5%
FFO per unit – diluted	**$0.26**	$0.25	4.0%	**$0.48**	$0.45	6.7%
Weighted average number of units – basic (000s)	**102,460**	95,611	7.2%	**102,325**	93,689	9.2%
Weighted average number of units – diluted (000s)	**102,620**	95,807	7.1%	**102,489**	93,883	9.2%

Killam earned FFO of $26.6 million, or $0.26 per unit (diluted), for the three months ended June 30, 2020, compared to $23.8 million, or $0.25 per unit (diluted), for the three months ended June 30, 2019. FFO growth is primarily attributable to contributions from acquisitions and the Frontier developments ($2.3 million) and same property NOI growth ($0.7 million). These increases were partially offset by a 7.1% increase in the weighted average number of units outstanding.

Killam earned FFO of $49.6 million, or $0.48 per unit (diluted), for the six months ended June 30, 2020, compared to $42.6 million, or $0.45 per unit (diluted), for the six months ended June 30, 2019. FFO growth is primarily attributable to contributions for acquisitions and completed developments ($4.4 million), same property NOI growth ($2.7 million), and lower deferred financing costs ($0.1 million). These increases were partially offset by a 9.2% 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 MD&A.

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 June 30,			Six months ended June 30,		
	2020	2019	% Change	**2020**	2018	% Change
FFO	**$26,617**	$23,752	12.1%	**$49,630**	$42,640	16.4%
Maintenance capital expenditures	**(4,205)**	(4,010)	4.9%	**(8,368)**	(7,989)	4.7%
Commercial straight-line rent adjustment	**(185)**	(105)	76.2%	**(218)**	(210)	3.8%
Internal commercial leasing costs	**(91)**	(127)	(28.3)%	**(339)**	(322)	5.3%
AFFO	**$22,136**	$19,510	13.5%	**$40,705**	$34,119	19.3%
AFFO per unit – basic	**$0.22**	$0.20	10.0%	**$0.40**	$0.36	11.1%
AFFO per unit – diluted	**$0.22**	$0.20	10.0%	**$0.40**	$0.36	11.1%
AFFO payout ratio – diluted	**79%**	81%	(200) bps	**85%**	90%	(500) bps
AFFO payout ratio - rolling 12 months [(1)]	**80%**	84%	(400) bps			
Weighted average number of units – basic (000s)	**102,460**	95,611	7.2%	**102,325**	93,689	9.2%
Weighted average number of units – diluted (000s)	**102,620**	95,807	7.1%	**102,489**	93,883	9.2%

[(1)] Based on Killam's annual distribution of $0.66668 for the 12-month period ended June 30, 2020, and $0.64664 for the 12-month period ended June 30, 2019. The calculation uses a maintenance capex reserve for apartments of $900 for the rolling 12 months ended June 30, 2020 and 2019.

The payout ratio of 79% in Q2-2020, compared to the rolling 12-month payout ratio of 80%, 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 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 improvement in the AFFO payout ratio during the quarter is attributable to higher AFFO per unit growth of 10.0%, compared to the 3.0% distribution increase announced during Q1-2020.

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 six months ended June 30, 2020 and 2019) to ACFO is as follows:

	Three months ended June 30,			**Six months ended June 30,**		
	2020	2019	% Change	**2020**	2019	% Change
Cash provided by operating activities	**$27,044**	$17,270	56.6%	**$53,449**	$36,841	45.1%
Adjustments:						
Changes in non-cash working capital not indicative of sustainable cash flows	**552**	6,695	(91.8)%	**(1,650)**	7,899	(120.9)%
Maintenance capital expenditures	**(4,205)**	(4,010)	4.9%	**(8,368)**	(7,989)	4.7%
Internal commercial leasing costs	**(91)**	(127)	(28.3)%	**(218)**	(322)	(32.3)%
Amortization of deferred financing costs	**(788)**	(740)	6.5%	**(1,532)**	(1,636)	(6.4)%
Interest expense related to lease liability	**(8)**	31	(125.8)%	**(16)**	63	(125.4)%
Non-controlling interest	**(5)**	(7)	(28.6)%	**(8)**	(10)	(20.0)%
ACFO	**$22,499**	$19,112	17.7%	**$41,657**	$34,846	19.5%
Distributions declared (1)	**17,645**	15,982	10.4%	**34,870**	31,042	12.3%
Excess of ACFO over cash distributions	**$4,854**	$3,130	55.1%	**$6,787**	$3,804	78.4%
ACFO payout ratio – diluted (2)	**78%**	84%	(600) bps	**84%**	89%	(500) bps

(1) Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 35.
(2) Based on Killam's monthly distribution of $0.05667 per unit for March-June 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 78% and 84% for the three and six months ended June 30, 2020, a decrease of 600 bps and 500 bps from the payout ratio for the three and six months ended June 30, 2019. 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 June 30,		**Six months ended June 30,**	
	2020	2019	**2020**	2019
Net income	**$21,509**	$82,789	**$60,011**	$109,880
Cash provided by operating activities	**$27,044**	$17,270	**$53,449**	$36,841
Total distributions declared	**$17,645**	$15,982	**$34,870**	$31,042
Excess of net income over total distributions declared	**$3,864**	$66,807	**$25,141**	$78,838
Excess of net income over net distributions paid (1)	**$9,432**	$71,339	**$34,938**	$86,857
Excess of cash provided by operating activities over total distributions declared	**$9,399**	$1,288	**$18,579**	$5,799

(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

	June 30, 2020	December 31, 2019	% Change
Investment properties	**$3,395,729**	$3,234,410	5.0%
Investment properties under construction ("IPUC")	**72,759**	46,867	55.2%
Land for development	**48,599**	39,327	23.6%
	$3,517,087	$3,320,604	5.9%

Continuity of Investment Properties

As at

	June 30, 2020	December 31, 2019	% Change
Balance, beginning of period	**$3,234,410**	$2,708,617	19.4%
Acquisition of properties	**130,945**	185,763	(29.5)%
Transfer to assets held for sale	**—**	(15,099)	(100.0)%
Transfer from IPUC	**—**	36,215	(100.0)%
Capital expenditures	**22,125**	71,495	(69.1)%
Fair value adjustment - Apartments	**16,077**	208,624	(92.3)%
Fair value adjustment - MHCs	**(824)**	38,540	(102.1)%
Fair value adjustment - Commercial	**(7,642)**	(1,549)	393.4%
Impact of change in right-of-use asset	**638**	1,804	(64.6)%
Balance, end of period	**$3,395,729**	$3,234,410	5.0%

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 June 30, 2020 and 2019, and December 31, 2019, is as follows:

Capitalization Rates

	June 30, 2020			December 31, 2019			June 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%**	**6.21%**	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 June 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 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)%	$3,748,531	4.40%	$352,802	10%
(0.25)%	3,544,337	4.65%	148,608	4%
—%	3,395,729	4.90%	—	—%
0.25%	3,196,447	5.15%	(199,282)	(6)%
0.50%	3,047,038	5.40%	(348,691)	(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**	—
Total Acquisitions						**$130,450**	**$—**

[1] Purchase price does not include transaction costs.

Christie Point
On January 15, 2020, Killam completed the acquisition of 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.

Investment Properties Under Construction

As at	**June 30, 2020**	December 31, 2019	% Change
Balance, beginning of period	**$46,867**	$37,163	26.1%
Fair value adjustment	**—**	774	(100.0)%
Capital expenditures	**21,413**	29,341	(27.0)%
Interest capitalized	**830**	754	10.1 %
Transfer to investment properties	**—**	(36,215)	(100.0)%
Transfer from land for development	**3,649**	15,050	(75.8)%
Balance, end of period	**$72,759**	$46,867	55.2%

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

Land for Development

As at			
	June 30, 2020	December 31, 2019	% Change
Balance, beginning of period	**$39,327**	$61,028	(35.6)%
Fair value adjustment (1)	**(4,000)**	(1,663)	140.5%
Capital expenditures	**2,342**	5,700	(58.9)%
Interest capitalized	**365**	1,513	(75.9)%
Acquisitions	**—**	6,200	(100.0)%
Transfer to IPUC	**(3,649)**	(15,050)	(75.8)%
Transfer from (to) held for sale (1)	**14,214**	(18,401)	(177.2)%
Balance, end of period	**$48,599**	$39,327	23.6%

(1) During Q2-2020, Killam recorded a fair value loss of $4.0 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 to investment properties. As at June 30, 2020, the property has a carrying value of $10.2 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	Anticipated All-cash Yield
Shorefront	Stratford, PE	100%	78	$22.0	2018	2020	5.25% - 5.50%
10 Harley Street	Charlottetown, PE	100%	38	$10.4	2019	2020	5.00% - 5.25%
Latitude	Ottawa, ON	50%	104	$42.0	2019	2021	4.75% - 5.00%
The Kay	Mississauga, ON	100%	128	$57.0	2019	2022	4.75% - 5.00%
Luma	Ottawa, ON	50%	84	$44.3	2019	2022	4.00% - 4.25%
Civic 66	Kitchener, ON	100%	169	$69.7	2020	2022	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. has a budget of approximately $22.0 million ($282,000/suite), resulting in an expected all-cash yield in the range of 5.25% - 5.5%, a 50–75 bps premium over the market cap-rate for a similar quality asset. The development broke ground in October 2018 and is scheduled for completion in September 2020 and is currently 25% leased. Construction financing is in place for this project and all remaining development costs will be funded through the construction financing.

10 Harley Street
In July 2019, there was a fire at Killam's three-storey, 29-unit apartment building located in Charlottetown, resulting in complete loss of the building. Killam commenced reconstruction in September 2019 and increased the building size to four storeys and 38 units. The budget for the redevelopment is approximately $10.4 million ($274,000/suite). Insurance proceeds from the loss will cover the majority of the reconstruction costs. The project is expected to be completed in February 2021.

Gloucester City Centre
In 2017, Killam and RioCan formed a joint venture to develop a residential rental community at Gloucester City Centre in Ottawa, with Killam acquiring a 50% interest in a 7.1-acre development site for $8.0 million ($16.0 million at 100%). Killam and RioCan each own a 50% interest in the land and participate on the same basis in this development. RioCan is the development manager and Killam is the residential property manager. The site has zoning approval for four residential towers with an aggregate total of 840 units.

The first phase of the development, Frontier, a 23-storey tower containing 228 units, was completed in June 2019. Construction of Latitude, the second phase of the 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 is expected to be in place for this project during the second half of 2020.

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

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% - 5.0%, 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.

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 4.0% - 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% - 5.0%, approximately a 125–175 bps premium over the market cap-rate for a similar quality asset. Killam broke ground 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 is expected to be completed in Q1-2021. 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% - 5.5% 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 the next 24 months [2]					
The Governor [3]	Halifax, NS	100%	12	In design and approval process	2023
Westmount Place (Phase 1)	Waterloo, ON	100%	114	In design and approval process	2023
Developments expected to start in 2022-2026					
Carlton Terrace	Halifax, NS	100%	104	In design	2024
Carlton Houses	Halifax, NS	100%	80	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 [4]			**2,375**		

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

(2) Management is reevaluating the timing of development plans originally expected to start in 2020 in response to COVID-19.

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

(4) 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 six months ended June 30, 2020, Killam invested $11.1 million, compared to $14.2 million for the three and six months ended June 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 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 $55.0 - $65.0 million during the year.

	Three months ended June 30,			**Six months ended June 30,**		
	2020	2019	% Change	**2020**	2019	% Change
Apartments	**$9,876**	$12,853	(23.2)%	**$19,982**	$25,304	(21.0)%
MHCs	**532**	894	(40.5)%	**840**	1,323	(36.5)%
Commercial	**664**	448	48.2%	**1,303**	494	163.8%
	$11,072	$14,195	(22.0)%	**$22,125**	$27,121	(18.4)%

Apartments - Capital Investment

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

	Three months ended June 30,			**Six months ended June 30,**		
	2020	2019	% Change	**2020**	2019	% Change
Building improvements	**$3,834**	$7,222	(46.9)%	**$7,493**	$15,318	(51.1)%
Suite renovations	**4,460**	4,092	9.0%	**9,667**	7,281	32.8%
Appliances	**527**	600	(12.2)%	**1,097**	1,016	8.0%
Boilers and heating equipment	**401**	659	(39.2)%	**642**	1,086	(40.9)%
Other	**654**	280	133.6%	**1,083**	603	79.6%
Total capital invested	**$9,876**	$12,853	(23.2)%	**$19,982**	$25,304	(21.0)%
Average number of units outstanding (1)	**16,165**	15,332	5.4%	**16,087**	15,299	5.2%
Capital invested - $ per unit	**$611**	$838	(27.1)%	**$1,242**	$1,654	(24.9)%

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

Killam invested $611 and $1,242 per unit for the three and six months ended June 30, 2020, compared to $838 and $1,654 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 investment 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 $9.9 million and $20.0 million total capital invested in the apartment segment for the three and six months ended June 30, 2020, approximately 39% and 37% was invested in building improvements, compared to 56% and 61% of the total capital investment for the three and six months ended June 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 $4.5 million and $9.7 million in suite renovations during the three and six months ended June 30, 2020, a 9.0% and 32.8% increase over the total investment of $4.1 million and $7.3 million for the three and six months ended June 30, 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 275 units, with an average investment of approximately $28,000 per suite, generating an average ROI of 13.0%.

A summary of the repositioning activities for the six months ended June 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	185	$24,400	21.0%	11.0%	3,000
Ontario	20	$36,200	34.0%	15.0%	500
New Brunswick	59	$23,600	28.0%	13.0%	1,300
Newfoundland	3	$23,200	15.0%	7.0%	150
Alberta	8	$32,600	39.0%	16.0%	50
Total (weighted average)	**275**	**$28,000**	**24.0%**	**13.0%**	**5,000**

Killam is targeting 500 repositionings in 2020; however, the number completed will depend upon the impact and duration of COVID-19. 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 $340.0 million increase in NAV.

Expanding our Sustainability Focus
Killam continued to execute on its energy efficiency plan during Q2-2020. Killam will continue to invest in additional energy efficiency initiatives, which includes the installation of photovoltaic solar panels at select properties, water conservation projects 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 June 30,			Six months ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
Water and sewer upgrades	**$143**	$216	(33.8)%	**$338**	$545	(38.0)%
Site expansion and land improvements	**99**	51	94.1%	**195**	149	30.9%
Other	**290**	426	(31.9)%	**307**	629	(51.2)%
Total capital invested - MHCs	**$532**	$894	(40.5)%	**$840**	$1,323	(36.5)%
Average number of sites	**5,875**	5,427	8.3%	**5,834**	5,427	7.5%
Capital invested - $ per site	**$91**	$165	(44.8)%	**$144**	$244	(41.0)%

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

Management expects to invest between $700 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 six months ended June 30, 2020 was $0.5 million and $0.8 million, down from $0.9 million and $1.3 million in the three and six months ended June 30, 2019. The decrease in capital spend 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 six months ended June 30, 2020, Killam invested $0.7 million and $1.3 million in its commercial portfolio, up from $0.4 million and $0.5 million for the three and six months ended June 30, 2019. This investment relates 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. Approximately 81% of the total capital spend relates to tenant improvements which will be recoverable by tenants pursuant to lease commencement.

Mortgages and Other Loans

The table below outlines Killam's key debt metrics:

As at	**June 30, 2020**	December 31, 2019	Change
Weighted average years to debt maturity	**4.6**	4.5	0.1 years
Total debt to total assets	**45.3%**	43.4%	190 bps
Interest coverage	**3.29x**	3.20x	2.8%
Debt service coverage	**1.59x**	1.57x	1.3%
Debt to normalized EBITDA (1)	**10.52x**	10.15x	3.6%
Weighted average mortgage interest rate	**2.83%**	2.90%	(7) bps
Weighted average interest rate of total debt	**2.83%**	2.92%	(9) 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 June 30, 2020, was 2.83%, 7 bps lower compared to the rate as at December 31, 2019.

Total debt as a percentage of total assets was 45.3% at June 30, 2020, compared to 43.4% at December 31, 2019. The increase in total leverage is attributable to permanent financing being placed on assets during the second quarter of 2020 that were acquired in the first quarter of 2020 and late in 2019, and a higher balance on Killam's credit facilities as at June 30, 2020, compared to December 31, 2019. Management is focused on maintaining conservative debt levels. Total debt to total assets is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes.

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

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

Cap-rate Sensitivity Increase/ (Decrease)	Fair Value of Investment Properties	Total Assets	Total Debt as % of Total Assets	Change (bps)
(0.50)%	$3,748,531	$3,896,725	41.2%	(410)
(0.25)%	$3,544,337	$3,692,531	43.5%	(180)
—%	$3,395,729	$3,543,923	45.3%	—
0.25%	$3,208,216	$3,349,432	47.9%	250
0.50%	$3,047,038	$3,195,232	50.3%	500

Refinancings

For the six months ended June 30, 2020, Killam refinanced the following mortgages:

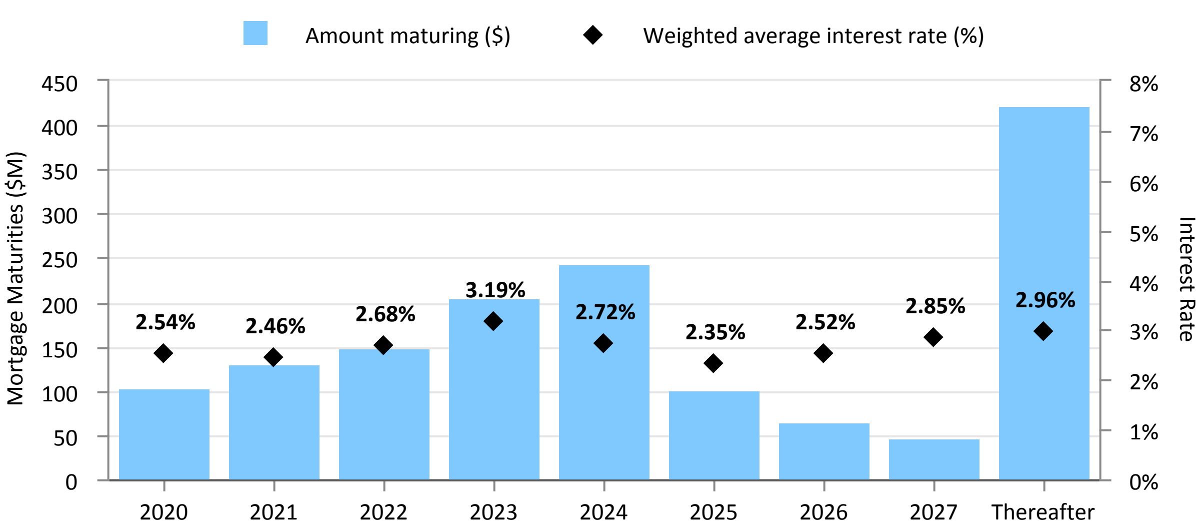
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$101,659	2.72%	$116,928	2.09%	6.8 years	$15,269
MHCs	9,792	3.41%	13,798	2.88%	5.0 years	4,006
	$111,451	2.78%	$130,726	2.17%	6.6 years	$19,275

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 June 30	Weighted Avg Int. Rate %	% CMHC Insured	Balance June 30	Weighted Avg Int. Rate %	Balance June 30 (1)	Weighted Avg Int. Rate %
2020	$104,958	2.54%	65.0%	$3,679	3.57%	$108,637	2.57%
2021	131,730	2.46%	86.4%	12,348	2.46%	144,078	2.56%
2022	149,141	2.68%	48.0%	24,650	3.58%	173,791	2.81%
2023	206,684	3.19%	67.5%	32,028	3.78%	238,712	3.27%
2024	244,274	2.72%	94.6%	13,416	3.49%	257,690	2.76%
2025	101,884	2.35%	100.0%	14,085	2.80%	115,969	2.41%
Thereafter	537,269	2.90%	100.0%	—	—%	537,269	2.90%
	$1,475,940	2.78%	85.6%	$100,206	3.38%	$1,576,146	2.83%

(1) Excludes $10.8 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at June 30, 2020.

Apartment Mortgage Maturities by Year



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

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 June 30, 2020, approximately 85.6% of Killam's apartment mortgages were CMHC-insured (80.2% 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 2.72% as at June 30, 2020 (December 31, 2019 - 2.77%).

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	23	$12,414	$104,136
MHCs with debt maturing	3	703	3,640
	26	$13,117	$107,776

2021 Debt Maturities	**Number of Properties**	**Estimated NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	37	$15,836	$126,713
MHCs with debt maturing	4	1,061	5,987
	41	$16,897	$132,700

Future Contractual Debt Obligations

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

Twelve months ending June 30,	**Mortgage and Loans Payable**	**Construction Loans**	**Credit Facilities [(1)]**	**Total**
2021	$199,779	$14,872	$38,554	$253,205
2022	264,831	—	—	264,831
2023	225,222	—	—	225,222
2024	219,192	—	—	219,192
2025	214,917	—	—	214,917
Thereafter	463,005	—	—	463,005
	$1,586,946	**$14,872**	**$38,554**	**$1,640,372**

(1) Killam's $70 million credit facility expires in December 2020; and this facility includes a one year extension option.

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 June 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 June 30, 2020.

As at June 30, 2020	**Maximum Loan Amount (1)**	**Amount Drawn**	**Letters of Credit**	**Amount Available**
$70.0 million facility	$90,000	$35,000	$—	$55,000
$10.0 million facility	10,000	3,554	1,332	5,114
Total	**$100,000**	**$38,554**	**$1,332**	**$60,114**

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.

Construction Loans

As at June 30, 2020, Killam had access to three variable rate non-revolving demand construction loans, for the purpose of financing development projects, totaling $71.7 million. As at June 30, 2020, $14.9 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 is 2.85% (December 31, 2019 - 3.32%). Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages.

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

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 six months ended June 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 June 30,			Six months ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
Distributions declared on trust units	**$16,889**	$15,227	10.9%	**$33,362**	$29,545	12.9%
Distributions declared on exchangeable units	**697**	685	1.8%	**1,389**	1,357	2.4%
Distributions declared on awards outstanding under RTU plan	**59**	70	(15.7)%	**119**	140	(15.0)%
Total distributions declared	**$17,645**	$15,982	10.4%	**$34,870**	$31,042	12.3%
Less:						
Distributions on trust units reinvested	**(5,509)**	(4,462)	23.5%	**(9,678)**	(7,878)	22.8%
Distributions on RTUs reinvested	**(59)**	(70)	(15.7)%	**(119)**	(141)	(15.6)%
Net distributions paid	**$12,077**	$11,450	5.5%	**$25,073**	$23,023	8.9%
Percentage of distributions reinvested	**31.6%**	28.4%		**28.1%**	25.8%	

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's $70 million revolving credit facility has an accordion feature to increase the facility up to $90 million. Killam currently has access to approximately $100 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 $107.8 million of mortgage debt scheduled for refinancing during the remainder of 2020, expected to lead to upfinancing opportunities of approximately $35 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 June 30, 2020 was 45.3%.

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 August 5, 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 six months ended June 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 June 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 June 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") and MacLean Contracting Ltd. ("MacLean"), companies owned by a Trustee of Killam, to provide construction services related to the Shorefront apartment development and reconstruction of the Harley Street apartment building in PEI. APM will be paid a market rate development and construction management fee. For the three and six months ended June 30, 2020, these companies were paid $0.8 million and $1.9 million (June 30, 2019 - $0.2 million and $0.5 million) for development related costs. This included $0.1 million and $0.2 million in construction management fees for the three and six months ended June 30, 2020 (June 30, 2019 - $0.1 million and $0.05 million).

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 owned by Bloomfield Holdings Ltd. ("Bloomfield"), a company owned by 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 base rent of approximately $13.00 per square foot, of which 50% is paid to the related party based on the ownership interest.

Subsequent Events

On July 15, 2020, Killam announced a distribution of $0.05667 per unit, payable on August 17, 2020, to unitholders of record on July 31, 2020.

On July 15, 2020, Killam acquired a commercial building, adjacent Killam's head office building, located in Halifax, NS, for $2.5 million.

On July 29, 2020, Killam closed a public offering of 4,036,500 trust units at a price of $17.10 for gross proceeds of $69.0 million.

On July 30, 2020, Killam acquired a 50% interest in a parcel of land for development in Ottawa, Ontario, to jointly develop a 168-unit apartment building, for $4.3 million. Subsequent to the closing of the acquisition, Killam invested an additional $9.8 million to reflect Killam's portion of the development costs completed to date.