Q1-2020 Management's Discussion and Analysis

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

TABLE OF CONTENTS

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 $3.4 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 four 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 90.4% of Killam’s net operating income ("NOI") for the three months ended March 31, 2020. As at March 31, 2020, Killam’s apartment portfolio consisted of 16,547 units, including 968 units jointly owned with institutional partners. Killam's 202 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 4.5% of Killam’s NOI for the three months ended March 31, 2020. Killam also owns 726,000 square feet of commercial space that accounted for 5.1% of Killam's NOI for the three months ended March 31, 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 May 6, 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 March 31, 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 22.
- 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 23.
- 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 24. 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 91% of the fair value of Killam's investment property portfolio as at March 31, 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 March 31,		
Operating Performance	**2020**	2019	Change [2]
Property revenue	**$63,294**	$57,186	10.7%
Net operating income	**$38,048**	$33,545	13.4%
Net income	**$38,502**	$27,092	42.1%
FFO [1]	**$23,013**	$18,888	21.8%
FFO per unit - diluted [1]	**$0.22**	$0.21	4.8%
AFFO [1]	**$18,566**	$14,608	27.1%
AFFO per unit - diluted [1]	**$0.18**	$0.16	12.5%
Weighted average number of units outstanding - diluted (000s)	**102,358**	91,938	11.3%
Distributions paid per unit [3]	**$0.66**	$0.64	3.1%
AFFO payout ratio - diluted [1]	**92%**	102%	(1,000) bps
AFFO payout ratio - rolling 12 months [1]	**81%**	84%	(300) bps
Portfolio Performance			
Same property NOI [1]	**$34,431**	$32,461	6.1%
Same property NOI margin	**60.6%**	59.0%	160 bps
Same property apartment occupancy	**97.2%**	97.1%	10 bps
Same property apartment weighted average rental increase [4]	**3.4%**	2.9%	50 bps

As at	**March 31, 2020**	December 31, 2019	Change [2]
Leverage Ratios and Metrics			
Debt to total assets	**44.4%**	43.4%	100 bps
Weighted average mortgage interest rate	**2.86%**	2.90%	(4) bps
Weighted average years to debt maturity	**4.8**	4.5	0.3 years
Debt to normalized EBITDA [1]	**10.31x**	10.15x	1.6%
Debt service coverage [1]	**1.58x**	1.57x	0.6%
Interest coverage [1]	**3.27x**	3.20x	2.2%

(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 March 31.

Summary of Q1-2020 Results and Operations

Achieved Net Income of $38.5 Million
Killam achieved net income of $38.5 million in Q1-2020 compared to $27.1 million in Q1-2019. The increase in net income is primarily due to growth through acquisitions and increased earnings from the existing portfolio, offset by increased financing costs. Fair value adjustments in Q1-2020 were $1.8 million higher compared to Q1-2019, as a result of fair value gains on Killam's exchangeable units in Q1-2020 more than offsetting the net of fair value gains on investment properties and fair value losses on exchangeable units and deferred unit-based compensation in Q1-2019.

FFO per Unit Growth of 4.8% and AFFO per Unit Growth of 12.5%
Killam generated FFO per unit of $0.22 in Q1-2020, 4.8% higher than the $0.21 per unit generated in Q1-2019. 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 an 11.3% increase in the weighted average number of units outstanding from Killam's $114.4 million equity issuance in November 2019 and $86.3 million equity issuance in March 2019.

AFFO per unit increased 12.5% in Q1-2020 to $0.18 compared to $0.16 in Q1-2019. 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 capital.

Same Property NOI Growth of 6.1%
Killam achieved 6.1% growth in same property consolidated NOI and a 160 bps improvement in its operating margin during the quarter. This improvement was driven by strong rental rate growth and lower operating expenses. Operating expenses decreased 0.7%, 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 consumption and pricing. Killam's same property apartment NOI increased 6.2% during the first quarter, with New Brunswick and Halifax leading the growth (12.1% and 8.7%).

Rental Rate Growth of 3.4%
Same property revenue increased 3.3%, compared to Q1-2019, as a result of a 3.4% increase in the average rental rate for the apartment portfolio, a 10 bps increase in average apartment occupancy, a decrease in rental incentives and 3.0% top-line growth within the MHC portfolio. Rental rate increases on unit turns and lease renewals averaged 6.1% and 2.1%, up from 5.1% and 1.9% in Q1-2019. Halifax and New Brunswick led the apartment performance, achieving year-over-year same property apartment revenue increases of 4.7% and 3.9%.

Repositioning Program Continues to Generate Above Average Returns
During Q1-2020, Killam invested $3.1 million in repositionings, completing 95 units to date. The average return on investment ("ROI") on unit repositionings completed during the quarter was approximately 13%, based on an average renovation cost of $25,000 per unit. These repositionings are expected to generate approximately $0.3 million in additional NOI on an annualized basis, and approximately $6.0 million in Net Asset Value ("NAV") growth.

Completed $70 million in Acquisitions Including Expansion into British Columbia Market
During Q1-2020, Killam completed $70.4 million of acquisitions adding 222 apartment units and 89 MHC sites to its portfolio. This included Killam's first apartment acquisition in British Columbia. Christie Point Apartments, a 161-unit property located in Victoria, BC, was acquired for $54.0 million. The property has a development agreement in place, which allows for redevelopment of the 15.8 acre site in phases, for an additional 312 units. Killam also acquired a 54-unit building located in Halifax, NS, adjacent to other Killam buildings, for $8.8 million, an 89-site MHC property located in Shediac, NB, for $4.0 million and a future development site with in-place income for $3.7 million.

Development Activity Underway
Killam continues to make progress on its current developments, investing $6.9 million during the first quarter. Killam has four development projects underway, totaling 348 units. At the end of Q1, Killam had contributed its equity component in all of its active developments, and remaining construction costs are expected to be funded through construction facilities. Killam also holds a 10% interest in another active 233-unit development in Calgary.

Refinancings at Low Rates Contributed to Earnings Growth
Killam benefited from lower interest rates on mortgages refinanced in Q1-2020. In total, Killam refinanced $66.5 million of maturing mortgages with $72.4 million of new debt at a weighted average interest rate of 2.41%, 70 basis points lower than the weighted average rate of the maturing debt.

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 COVID-19 pandemic globally 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, partners and communities. Killam is executing on its Pandemic Illness Plan to lessen the spread of COVID-19.

Due to the inherent uncertainty surrounding disruption from the COVID-19 pandemic, 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 has withdrawn 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 over the coming quarters.

Although all of Killam's apartment properties, MHCs and the essential retail tenants remain operational with low vacancy rates, COVID-19 may impact financial results during 2020 and beyond as outlined below.

Waiving of Rental Rate Increases
Due to the economic uncertainty facing many Canadians during the emergency measures associated with the pandemic, Killam has waived the collection of rental increases beginning with the April 2020 rental payment and has suspended the collection of further rental increases during the public health crisis. This will result in less rental rate growth than originally expected for 2020. Management is uncertain at this time when rental increases on lease renewals will resume.

Rent Collection
Killam's rent collection experience since the onset of the pandemic has remained strong. As of May 6, 2020, Killam has collected 96.9% of total rents for April, including 98.6% of apartment, 97.7% of MHC and 72% of commercial rents. Killam is actively following up with those accounts in arrears. May rent collection is generally in line with the average rent collected by the sixth day of the month.

Killam is continuing to collect monthly rents but may face higher than normal exposure to uncollectable rents during the pandemic. In compliance with many provincial directives, Killam will not evict tenants who have arrears during this period. Historically, Killam has had less than 0.4% of revenue uncollected.

Killam has a rent deferral program to assist residential tenants who are facing financial hardship due to COVID-19 and is working with residents on a case-by-case basis regarding rent deferral arrangements. Currently less than 50 residential tenants have requested or been granted rent deferrals. For commercial tenants, Killam is also working with qualifying small businesses and independent tenants on a case-by-case basis, and in certain cases has agreed to temporary rent deferrals for 60 to 90 days. Revenue from Killam's commercial properties represent approximately 6% of total revenue and includes a diversified tenant base, including over 40% of revenue from strong anchor tenants.

Leasing
Leasing activity has continued following the onset of the pandemic as leasing agents were readily able to work remotely. Unit showing procedures have been adjusted to adhere to physical distancing guidelines using Killam's online operating platform and the use of virtual showings (video tours, FaceTime, etc.). Killam's April and May apartment occupancy remains comparable to 2019. Apartment occupancy for April was 97.2%, and MHC occupancy was 97.6%. Turnover has decreased in May by approximately 15-20% of anticipated levels, and Killam has also experienced a corresponding decrease in leasing traffic from pre-COVID-19 levels. Killam's leasing teams are closely monitoring traffic and turnover levels and are focused on maintaining strong leasing performance.

Investment Activity
Construction at Killam's four current development projects has been experiencing slowdowns since the beginning of April due to the reduced number of labourers reporting to work. Killam expects this slowdown to continue until provincial state of emergency orders are lifted. For details on each specific development and their timelines, refer to the Investment Properties Under Construction section on page 26. Killam does not anticipate commencing any additional development projects until the crisis is over.

Physical distancing protocols are also delaying other capital projects. Delays in certain capital projects may lead to a reduction in Killam's capital spend in 2020 compared to the original estimate of between $70.0 and $75.0 million. Killam's suite repositioning program is continuing where it is deemed safe; however, Killam's original target of 500 renovated units in 2020 may be affected due to the pandemic.

Liquidity
To-date, mortgage financings and renewals have progressed on schedule with no mortgage financing delays noted as a result of COVID-19. Interest rates on mortgage renewals completed during April and May and locked in for June have averaged 1.58%, 30 bps lower than the weighted average rate of the maturing debt. Killam has $154.4 million of additional mortgage renewals scheduled for the remainder of 2020, $45.0 million which has already been completed or locked in during the second quarter, with total upfinancing estimated to be approximately $40.0 million. At this time, Management does not anticipate delays on these mortgage renewals. In addition to mortgage refinancings, Killam has access to $69.0 million of additional capital through its credit facilities, as well as approximately $75.0 million of unencumbered assets.

Further Information
Killam is committed to providing updates to its unitholders and other stakeholders during the course of the COVID-19 pandemic. Many stakeholders' questions have been addressed through a question and answer (Q&A) document on Killam's website, and Management will continue to update the Q&A on the website regularly.

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 March 31, 2020:

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia				
Halifax	5,814	65	$13,296	34.9%
Sydney	139	2	$336	0.9%
	5,953	67	$13,632	35.8%
New Brunswick				
Moncton	1,804	34	$2,910	7.7%
Fredericton	1,529	23	$2,779	7.3%
Saint John	1,202	14	$1,444	3.8%
Miramichi	96	1	$158	0.4%
	4,631	72	$7,291	19.2%
Ontario				
Ottawa	1,216	9	$2,644	7.0%
London	523	5	$1,344	3.5%
Cambridge-GTA	818	6	$2,692	7.1%
	2,557	20	$6,680	17.6%
Newfoundland & Labrador				
St. John's	915	12	$1,587	4.2%
Grand Falls	148	2	$135	0.3%
	1,063	14	$1,722	4.5%
Prince Edward Island				
Charlottetown	986	19	$1,587	4.2%
Summerside	86	2	$142	0.3%
	1,072	21	$1,729	4.5%
Alberta				
Calgary	531	3	$1,397	3.7%
Edmonton	579	4	$1,457	3.8%
	1,110	7	$2,854	7.5%
British Columbia				
Victoria	161	1	$493	1.3%
Total Apartments	**16,547**	**202**	**$34,401**	**90.4%**

Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia	2,749	17	$1,129	3.0%
Ontario	2,284	17	$572	1.5%
New Brunswick (4)	672	3	($74)	(0.2)%
Newfoundland & Labrador	170	2	$83	0.2%
Total MHCs	**5,875**	**39**	**$1,710**	**4.5%**

Commercial Portfolio (3)				
	Square Footage (5)	Number of Properties (1)	NOI ($) (2)	NOI (2) (% of Total)
Prince Edward Island	179,000	1	$398	1.0%
Ontario	313,000	1	$1,100	2.9%
Nova Scotia	201,000	4	$332	0.9%
New Brunswick (4)	33,000	1	$107	0.3%
Total Commercial	**726,000**	**7**	**$1,937**	**5.1%**
Total Portfolio		**248**	**$38,048**	**100.0%**

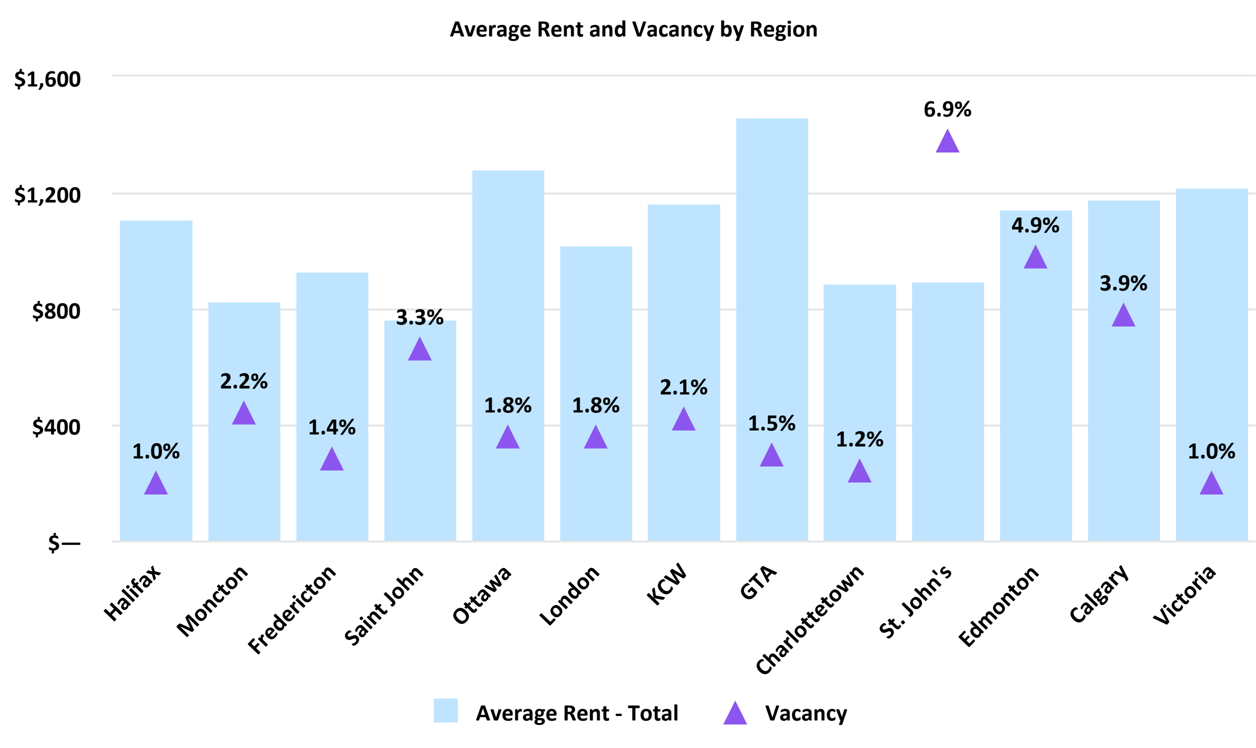
(1) Unit count includes the total unit count of properties held through Killam's joint arrangements. Killam has a 50% ownership interest in two apartment properties in Ontario, representing a proportionate ownership of 484 units of the 968 units in these properties. Killam manages the operations of all the co-owned apartment properties.
(2) For the three months ended March 31, 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-owner.

Core Market Update

Killam is the single largest multi-residential landlord in Atlantic Canada, with a 13% total market share of apartments in its core markets. A large portfolio in each core market provides advantages, including brand recognition, a diverse selection of apartments in each city, improved operating margins from economies of scale and the ability to attract and retain top management talent. Killam is focused on increasing its geographic diversification through the acquisition and development of properties in its core markets in Ontario, Alberta and British Columbia. Killam's current apartment portfolio consists of 2,557 apartment units in Ontario, up from 225 units in 2010 when Killam first entered the market, and includes properties in Ottawa, Toronto, London, and Kitchener-Waterloo-Cambridge. Killam has also assembled a portfolio of 1,110 units in Calgary and Edmonton. In January 2020, Killam acquired its first apartment property in Greater Victoria, BC, and now owns 161 units in the province.

Over 75% of Killam's current apartment portfolio is not impacted by rent control, allowing Killam to move rents to market rates annually. Prince Edward Island, representing 5.0% of Killam's apartment NOI, is the only province in Atlantic Canada with rent control for apartments. Killam's Ontario portfolio, accounting for 19.4% of apartment NOI, is also subject to rent control. In Ontario, landlords can move rents to market on a unit-by-unit basis as they become vacant. British Columbia, Killam's newest apartment market accounting for 1.4% of apartment NOI, also has rent control. Ontario and Nova Scotia both have rent control for MHCs. In both provinces, rent controls do not apply to new tenants. Overall, only 27.9% of Killam's NOI is generated in markets subject to rent control; however, owners may apply for above-guideline increases ("AGIs") to offset significant capital expenditures in these regions. Killam analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to optimize rents on renewal or on turn. Due to COVID-19, Killam has temporarily suspended moving rent renewals to market.

Overall the Canadian rental market remains strong. The following chart summarizes average rent and vacancy by region as per CMHC's Fall 2019 Rental Market Report:



Source: CMHC Housing Market Portal

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

PART IV

Q1-2020 Financial Overview

Consolidated Results

For the three months ended March 31,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$63,294**	$57,186	10.7%	**$56,832**	$55,012	3.3%	**$6,462**	$2,174	197.2%
Property operating expenses									
General operating expenses	**9,941**	9,024	10.2%	**8,678**	8,490	2.2%	**1,263**	534	136.5%
Utility and fuel expenses	**7,477**	7,754	(3.6)%	**6,876**	7,504	(8.4)%	**601**	250	140.4%
Property taxes	**7,828**	6,863	14.1%	**6,847**	6,557	4.4%	**981**	306	220.6%
Total operating expenses	**$25,246**	$23,641	6.8%	**$22,401**	$22,551	(0.7)%	**$2,845**	$1,090	161.0%
NOI	**$38,048**	$33,545	13.4%	**$34,431**	$32,461	6.1%	**$3,617**	$1,084	233.7%
Operating margin %	**60.1%**	58.7%	140 bps	**60.6%**	59.0%	160 bps	**56.0%**	49.9%	610 bps

For the three months ended March 31, 2020, Killam recognized strong overall portfolio performance, revenue grew 10.7%, partially offset by total operating expense increases of 6.8%, due to the increased size of Killam's overall portfolio. In aggregate, NOI increased 13.4% for the three months ended March 31, 2020.

Same property results included properties owned during comparable 2020 and 2019 periods. Same property results represent 91% of the fair value of Killam's investment property portfolio as at March 31, 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 3.3% for three months ended March 31, 2020, as compared to the same period of 2019. This growth is attributable to higher rental rates, improved occupancy and lower rental incentive offerings, as a result of strong market fundamentals and execution of Killam's rent optimization program. Total same property operating expenses decreased 0.7% for the three months ended March 31, 2020. This reduction was driven by an 8.4% 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 were partially offset by a 2.2% increase in general operating costs and a 4.4% increase in property taxes as a result of higher reassessments, which Killam actively appeals whenever possible. Overall, same property NOI grew by 6.1% for the three months ended March 31, 2020, as compared to Q1-2019, and Killam's operating margin improved by 160 bps.

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

Apartment Results

For the three months ended March 31,

	Total			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$56,090**	$51,028	9.9%	**$51,553**	$49,816	3.5%	**$4,537**	$1,212	274.3%
Property operating expenses									
General operating expenses	**8,162**	7,468	9.3%	**7,545**	7,276	3.7%	**617**	192	221.4%
Utility and fuel expenses	**6,752**	7,166	(5.8)%	**6,442**	7,069	(8.9)%	**310**	97	219.6%
Property taxes	**6,775**	6,035	12.3%	**6,211**	5,950	4.4%	**564**	85	563.5%
Total operating expenses	**$21,689**	$20,669	4.9%	**$20,198**	$20,295	(0.5)%	**$1,491**	$374	298.7%
NOI	**$34,401**	$30,359	13.3%	**$31,355**	$29,521	6.2%	**$3,046**	$838	263.5%
Operating margin %	**61.3%**	59.5%	180 bps	**60.8%**	59.3%	150 bps	**67.1%**	69.1%	(200) bps

Apartment Revenue

Total apartment revenue for the three months ended March 31, 2020, was $56.1 million, an increase of 9.9% over the same period in 2019. Revenue growth was augmented by contributions from recently acquired and developed properties and higher rental rates.

Same property apartment revenue increased 3.5% for the three months ended March 31, 2020, with strong leasing activity contributing to a 10 bps improvement in same property occupancy in the quarter and a 3.4% increase in average rental rates. As well, rental incentives for the three months ended March 31, 2020, declined compared to the same period of 2019, as fewer incentives were offered. Ancillary revenue also increased, including laundry revenue.

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

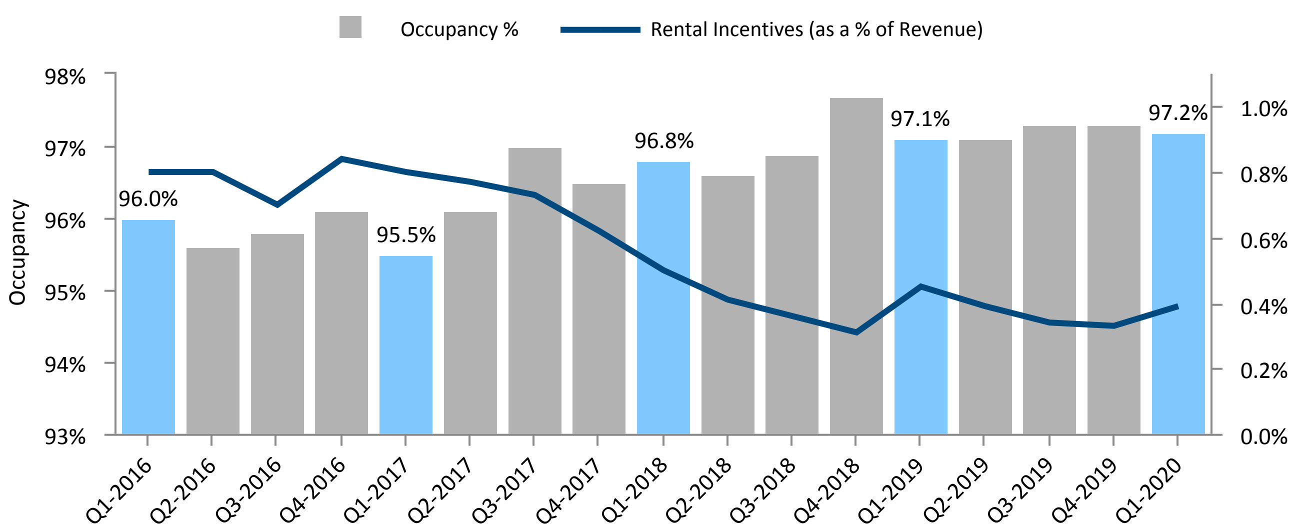
Apartment Occupancy Analysis by Core Market (% of Residential Rent) (1)

For the three months ended March 31,	# of Units	Total Occupancy 2020	Total Occupancy 2019	Total Occupancy Change (bps)	Same Property Occupancy 2020	Same Property Occupancy 2019	Same Property Occupancy Change (bps)
Nova Scotia							
Halifax	5,814	**98.6%**	98.0%	60	**98.6%**	98.0%	60
Ontario							
Ottawa (2)	1,216	**92.4%**	96.7%	(430)	**92.3%**	97.1%	(480)
London	523	**98.0%**	96.7%	130	**98.0%**	96.7%	130
Cambridge-GTA	818	**97.8%**	98.5%	(70)	**97.8%**	98.5%	(70)
New Brunswick							
Moncton	1,804	**98.9%**	97.6%	130	**98.9%**	97.6%	130
Fredericton	1,529	**98.0%**	98.8%	(80)	**98.3%**	98.8%	(50)
Saint John	1,202	**97.1%**	96.4%	70	**97.1%**	96.4%	70
Newfoundland and Labrador							
St. John's	915	**89.1%**	90.6%	(150)	**89.1%**	90.6%	(150)
Prince Edward Island							
Charlottetown	986	**99.4%**	99.6%	(20)	**99.4%**	99.6%	(20)
Alberta							
Calgary	531	**96.7%**	93.9%	280	**96.6%**	93.9%	270
Edmonton	579	**91.5%**	90.1%	140	**93.4%**	90.1%	330
British Columbia							
Victoria	161	**98.0%**	N/A	N/A	**N/A**	N/A	N/A
Other Atlantic	469	**93.8%**	98.2%	(440)	**93.8%**	98.2%	(440)
Total Apartments (weighted average)	**16,547**	**97.0%**	97.1%	(10)	**97.2%**	97.1%	10

(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) 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. The new product is being absorbed, and Killam expects vacancy at the Kanata properties to decline in the first half of the year.

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".

Historic 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 March 31,

		Average Rent			Same Property Average Rent		
	# of Units	**2020**	2019	% Change	**2020**	2019	% Change
Nova Scotia							
Halifax	5,814	**$1,148**	$1,106	3.8%	**$1,148**	$1,106	3.8%
Ontario							
Ottawa	1,216	**$1,761**	$1,524	15.6%	**$1,722**	$1,662	3.6%
London	523	**$1,321**	$1,274	3.7%	**$1,321**	$1,274	3.7%
Cambridge-GTA	818	**$1,502**	$1,454	3.3%	**$1,516**	$1,460	3.8%
New Brunswick							
Moncton	1,804	**$932**	$874	6.6%	**$901**	$868	3.8%
Fredericton	1,529	**$1,027**	$965	6.4%	**$1,008**	$965	4.5%
Saint John	1,202	**$849**	$814	4.3%	**$849**	$814	4.3%
Newfoundland and Labrador							
St. John's	915	**$996**	$983	1.3%	**$996**	$983	1.3%
Prince Edward Island							
Charlottetown	986	**$1,017**	$1,016	0.1%	**$1,017**	$999	1.8%
Alberta							
Calgary	531	**$1,248**	$1,244	0.3%	**$1,273**	$1,244	2.3%
Edmonton	579	**$1,482**	$1,444	2.6%	**$1,447**	$1,444	0.2%
British Columbia							
Victoria	161	**$1,577**	N/A	N/A	**N/A**	N/A	N/A
Other Atlantic	469	**$914**	$895	2.1%	**$914**	$895	2.1%
Total Apartments (weighted average)	**16,547**	**$1,138**	$1,082	5.2%	**$1,120**	$1,083	3.4%

Same Property Rental Increases – Tenant Renewals versus Unit Turns

Killam turns approximately 30% to 35% of its units each year, with the trend declining in recent years. Upon turn, Killam will typically generate rental increases by raising 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 50 bps to 3.4% in Q1-2020, compared to 2.9% for the same period of 2019. Given strong fundamentals and Killam's rent optimization program, there has been notable appreciation in rental rates on unit turns. The following chart details the average rental increases realized upon turns and lease renewals on a same property basis:

	2020		**2019**	
For the three months ended March 31,	Rental Increases	Turnovers and Renewals (1)	Rental Increases	Turnovers and Renewals (1)
Lease renewal	**2.1%**	**79.6%**	1.9%	77.0%
Unit turn - regular	**6.1%**	**17.4%**	5.1%	21.5%
Unit turn - repositioned	**28.4%**	**3.0%**	27.8%	1.5%
Weighted average rental increase	**3.4%**		2.9%	

(1) The percentage of total units renewed and turned during Q1-2020 was 20.1% (Q1-2019 - 20.9%).

Apartment Expenses

Total operating expenses for the three months ended March 31, 2020, were $21.7 million, a 4.9% increase over the same period of 2019, due primarily to incremental costs associated with recent acquisitions and developments, property tax increases and general operating cost increases. Killam's apartment operating margin increased by 180 bps quarter-over-quarter, as lower utility costs and revenue optimization more than offset incremental operating costs.

Total same property operating expenses for the three months ended March 31, 2020, were 0.5% lower than the same period in 2019. Utility costs were the largest driver of savings, decreasing 8.9% during the quarter due to lower natural gas pricing and consumption savings as a result of energy efficiency initiatives and warmer weather. Property tax expense increased 4.4% for the three months ended March 31, 2020. Killam continues to appeal tax assessment increases whenever possible to minimize this impact. Killam also realized general operating expense increases of 3.7% for the three months ended March 31, 2020, due to general inflationary cost pressures, an augmented leasing team and increased insurance premiums, partially offset by operational efficiencies. In total, the same property operating margin improved by 150 bps during the three months ended March 31, 2020.

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

Apartment Utility and Fuel Expenses - Same Property

	Three months ended March 31,		
	2020	2019	% Change
Natural gas	**$2,497**	$3,008	(17.0)%
Electricity	**2,136**	2,240	(4.6)%
Water	**1,350**	1,282	5.3%
Oil & propane	**445**	525	(15.2)%
Other	**14**	14	—%
Total utility and fuel expenses	**$6,442**	$7,069	(8.9)%

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 the 5,000 units heated with electricity. Fuel costs associated with central natural gas or oil-fired heating plants are paid by Killam.

Utility and fuel expenses accounted for approximately 32% of Killam's total apartment same property operating expenses during the quarter. Total same property utility and fuel expenses decreased 8.9% for the three months ended March 31, 2020.

Same property natural gas expense decreased by 17.0% in the three months ended March 31, 2020. The significant decrease in natural gas expense was primarily attributable to decreases in commodity prices in Nova Scotia, New Brunswick and Ontario of 24%, 19% and 16%, respectively, coupled with consumption savings due to warmer temperatures in all three regions compared to the same period in 2019.

Electricity costs were 4.6% lower for three months ended March 31, 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 5.3% during the quarter, primarily due to municipal water rate increases across Killam's regions, partially offset by consumption savings from Killam's green initiatives. Since 2015, Killam has installed over 11,350 low-flow toilets, saving an estimated 700 million litres of water annually across the portfolio and generating approximately $1.4 million in water consumption savings.

Heating oil and propane costs decreased by 15.2% for the three months ended March 31, 2020, compared to the same period of 2019, as a result of lower consumption due to increased efficiencies from boiler upgrades and switching to natural gas at certain properties as well as lower oil prices.

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

Apartment Same Property NOI by Region

Three months ended March 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Nova Scotia									
Halifax	**$20,406**	$19,483	4.7%	**($7,575)**	($7,681)	(1.4)%	**$12,831**	$11,802	8.7%
	20,406	19,483	4.7%	**(7,575)**	(7,681)	(1.4)%	**12,831**	11,802	8.7%
Ontario									
Ottawa	**3,147**	3,191	(1.4)%	**(1,057)**	(1,065)	(0.8)%	**2,090**	2,126	(1.7)%
London	**2,053**	1,941	5.8%	**(710)**	(676)	5.0%	**1,343**	1,265	6.2%
Cambridge-GTA	**3,622**	3,508	3.2%	**(1,230)**	(1,159)	6.1%	**2,392**	2,349	1.8%
	8,822	8,640	2.1%	**(2,997)**	(2,900)	3.3%	**5,825**	5,740	1.5%
New Brunswick									
Moncton	**4,645**	4,465	4.0%	**(2,140)**	(2,223)	(3.7)%	**2,505**	2,242	11.7%
Fredericton	**4,404**	4,252	3.6%	**(1,865)**	(1,933)	(3.5)%	**2,539**	2,319	9.5%
Saint John	**3,076**	2,957	4.0%	**(1,634)**	(1,734)	(5.8)%	**1,442**	1,223	17.9%
	12,125	11,674	3.9%	**(5,639)**	(5,890)	(4.3)%	**6,486**	5,784	12.1%
Newfoundland & Labrador									
St. John's	**2,473**	2,487	(0.6)%	**(876)**	(811)	8.0%	**1,597**	1,676	(4.7)%
	2,473	2,487	(0.6)%	**(876)**	(811)	8.0%	**1,597**	1,676	(4.7)%
Prince Edward Island									
Charlottetown	**2,974**	2,919	1.9%	**(1,386)**	(1,321)	4.9%	**1,588**	1,598	(0.6)%
	2,974	2,919	1.9%	**(1,386)**	(1,321)	4.9%	**1,588**	1,598	(0.6)%
Alberta									
Calgary	**1,484**	1,473	0.7%	**(471)**	(488)	(3.5)%	**1,013**	985	2.8%
Edmonton	**1,956**	1,813	7.9%	**(717)**	(640)	12.0%	**1,239**	1,173	5.6%
	3,440	3,286	4.7%	**(1,188)**	(1,128)	5.3%	**2,252**	2,158	4.4%
Other Atlantic locations	**1,313**	1,327	(1.1)%	**(537)**	(564)	(4.8)%	**776**	763	1.7%
	$51,553	$49,816	3.5%	**($20,198)**	($20,295)	(0.5)%	**$31,355**	$29,521	6.2%

Halifax

Halifax is Killam's largest rental market, contributing approximately 41% of apartment same property NOI for the three months ended March 31, 2020. Same property apartment revenue increased 4.7% for the three months ended March 31, 2020, due to a 3.8% increase in average rent and a 60 bps increase in occupancy to 98.6% for the quarter.

Total operating expenses for the three months ended March 31, 2020 were 1.4% lower than the same period of 2019. The decreased expense was driven by lower natural gas costs as a result of decreases in commodity pricing, and lower repairs and maintenance costs. The net impact was an 8.7% increase in NOI for the three months ended March 31, 2020.

Ontario

Killam's Ontario portfolio generated approximately 19% of apartment same property NOI for the three months ended March 31, 2020. Revenue increased by 2.1% for the three months ended March 31, 2020, driven by a 3.7% increase in average rental rates, improved occupancy in the London market, decreased rental incentives and increased parking revenue. These gains were partially offset by higher vacancy in Ottawa.

Total operating expenses increased 3.3% compared to the same period of 2019. The was primarily due to increased repairs and maintenance costs and increased utility expenses, partially offset by lower staffing costs. In aggregate, same property NOI was 1.5% higher than the three months ended March 31, 2019.

The Ottawa market experienced a notable decrease in property revenue during the quarter. A decline of 480 bps in occupancy was driven by new product that came to market in Kanata, adjacent Killam's Kanata Lakes portfolio, in Q4-2019. This new product has now been fully absorbed and Killam expects occupancy at this complex to increase throughout 2020. Killam also experienced vacancy at another property in Ottawa undergoing extensive unit repositioning. These renovations are now completed and are expected to be leased up during Q2-2020.

New Brunswick

Killam's apartments in Moncton, Fredericton and Saint John accounted for approximately 21% of apartment same property NOI for the three months ended March 31, 2020. In aggregate, same property revenue increased 3.9%, following rental rate growth in Moncton, Fredericton and Saint John of 3.8%, 4.5% and 4.3%, respectively, despite slightly lower occupancy in Fredericton during the quarter.

Total operating expenses were 4.3% lower for the three months ended March 31, 2020, compared to the same period in 2019. Decreased utilities as a result of lower natural gas pricing and reduced electricity consumption, and lower realty taxes were partially offset by higher insurance premiums and repairs and maintenance costs. Overall, New Brunswick achieved an impressive 12.1% increase in same property NOI in Q1-2020, compared to Q1-2019.

Newfoundland and Labrador

Killam's St. John's properties accounted for approximately 5% of apartment same property NOI for the three months ended March 31, 2020. Same property revenue decreased 0.6% for the three months ended March 31, 2020, as compared to the same period of 2019. While rental rates have increased by 1.3%, occupancy was 150 bps lower during the quarter. Lower occupancy in the region is due to softness in the economy, driven by reduced activity in the offshore oil sector and declines in other natural resource sectors, on which the Newfoundland economy is heavily reliant.

Total operating expenses for the three months ended March 31, 2020, were 8.0% higher than the same period of 2019. The increase in operating expenses was primarily due to higher staffing costs with expanded property management and leasing teams, higher insurance premiums and higher contract services cost. In aggregate, same property NOI was 4.7% lower for the three months ended March 31, 2020.

Prince Edward Island

Killam's Charlottetown portfolio contributed approximately 5% of apartment same property NOI for the three months ended March 31, 2020. Charlottetown achieved 1.9% revenue growth for the three months ended March 31, 2020, including rental rate growth of 1.8%.

Total operating expenses for the three months ended March 31, 2020 were 4.9% higher compared to 2019. The increase in operating expenses was primarily due to increases in contract services, water costs due to rising municipal water rates and increased property taxes, slightly offset by lower advertising expense. Overall, Charlottetown saw a 0.6% decreased in NOI for the three months ended March 31, 2020, compared to the same period of 2019.

Alberta

Killam's Calgary properties accounted for approximately 3% of apartment same property NOI for the three months ended March 31, 2020. Calgary achieved same property revenue increases of 0.7% for the three months ended March 31, 2020, compared to the same period of 2019, due to rental rate growth of 2.3% and a 270 bps increase in occupancy, partially offset by an increase in rental incentives.

Total operating expenses for the three months ended March 31, 2020 decreased 3.5%, as a result of decreased contract services costs partially offset by increased staffing costs. Overall, Calgary achieved 2.8% same property NOI growth for the three months ended March 31, 2020.

Killam's Edmonton portfolio accounted for 4% of apartment same property NOI for the three months ended March 31, 2020. Same property revenues increased 7.9%, as a result of a 330 bps increase in occupancy, slight increase in rental rates, and lower incentive offerings.

Same property operating expenses increased 12.0% for the three months ended March 31, 2020. The increase in operating expenses during the quarter was primarily due to higher property taxes, the addition of on-site leasing staff and increased repairs and maintenance costs. Overall, Edmonton achieved increased NOI of 5.6% for the three months ended March 31, 2020.

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

MHC Results

For the three months ended March 31,

	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$3,199**	$3,112	2.8%	**$3,200**	$3,108	3.0%	**($1)**	$4	N/A
Property operating expenses	**1,489**	1,461	1.9%	**1,443**	1,419	1.7%	**46**	42	N/A
NOI	**$1,710**	$1,651	3.6%	**$1,757**	$1,689	4.0%	**($47)**	($38)	N/A
Operating margin %	**53.5%**	53.1%	40 bps	**54.9%**	54.3%	60 bps	**—%**	—%	—

The MHC business generated 4.5% of Killam's NOI for the three months ended March 31, 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 communities that earn approximately 60% of their NOI between July and September.

MHC same property revenue increased 3.0% for the three months ended March 31, 2020, compared to the same period in 2019. Rents rose by 3.1%, to $262 per site from $254 per site in Q1-2019, due primarily to rental increases at permanent communities. Occupancy for Q1-2020 was 97.7%, compared to 97.8% in Q1-2019.

Total same property expenses increased modestly by 1.7% for the three months ended March 31, 2020, primarily due to increases in repairs and maintenance and contract services costs. Overall, the MHC portfolio generated same property NOI growth of 4.0% for the three months ended March 31, 2020. Overall, the MHC same property operating margin improved 60 bps to 54.9% during Q1-2020.

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

Commercial Results

For the three months ended March 31,	Total Portfolio			Same Property			Non-Same Property		
	2020	2019	% Change	**2020**	2019	% Change	**2020**	2019	% Change
Property revenue	**$4,005**	$3,046	31.5%	**$2,079**	$2,088	(0.4)%	**$1,926**	$958	101.0%
Property operating expenses	**2,068**	1,511	36.9%	**759**	836	(9.2)%	**1,309**	675	93.9%
NOI	**$1,937**	$1,535	26.2%	**$1,320**	$1,252	5.4%	**$617**	$283	118.0%

Killam's commercial property portfolio contributed $1.9 million, or 5.1%, of Killam's total NOI for the three months ended March 31, 2020. Killam's commercial property portfolio contains 726,000 SF, located in four of Killam's core markets. Commercial same property results represent 48.7% of Killam's commercial square footage and consist of Westmount Place located in Waterloo and two commercial properties, one 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 90.1% for the three months ended March 31, 2020, compared to 94.8% in Q1-2019 and 89.6% at December 31, 2019. The decrease in occupancy compared to March 31, 2019, is primarily due to the redevelopment of the Brewery Market in Halifax, resulting in increased vacancy during the renovation process. The decline in same property commercial revenue was also driven by an uptick in vacancy at Westmount Place as the result of the departure of two tenants. Killam is in the process of releasing these spaces.

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

PART V

Other Income and Expenses

Other Income

	Three months ended March 31,		
	2020	2019	% Change
	$184	$197	(6.6)%

Other income includes property management fees for jointly held properties, interest on bank balances, net revenue associated with the sale of homes in Killam's MHC segment and net insurance proceeds. The 6.6% decrease for the three months ended March 31, 2020, was due to lower interest on bank account balances as a result of maintaining a lower cash balance.

Financing Costs

	Three months ended March 31,		
	2020	2019	% Change
Mortgage, loan and construction loan interest	**$10,823**	$10,191	6.2%
Interest on credit facilities	**337**	449	(24.9)%
Interest on exchangeable units	**692**	671	3.1%
Amortization of deferred financing costs	**744**	895	(16.9)%
Amortization of fair value adjustments on assumed debt	**24**	40	(40.0)%
Unrealized loss on derivative asset	**443**	195	127.2%
Interest on lease liabilities	**96**	73	31.5%
Capitalized interest	**(575)**	(673)	(14.6)%
	$12,584	$11,841	6.3%

Total financing costs increased $0.7 million, or 6.3%, for the three months ended March 31, 2020, as compared to the same period of 2019.

Mortgage, loan and construction loan interest expense was $10.8 million for the three months ended March 31, 2020, an increase of $0.6 million, or 6.2%, compared to the same period of 2019. Killam's mortgage, loan and construction loan liability balance increased by $182.5 million over the past twelve months as Killam refinanced its existing portfolio's maturing mortgages and obtained financing for acquisitions and developments. The average interest rate on refinancings for the three months ended March 31, 2020, was 2.41%, 70 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 mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. Deferred financing amortization costs decreased 16.9% for the three months ended March 31, 2020, as a result of two refinancings in 2019 that resulted in immediate expensing of remaining CMHC premiums. Based on the current portfolio, normalized deferred financing costs are expected to be approximately $0.7 million per quarter. This expense may fluctuate with refinancings.

Capitalized interest decreased $0.1 million for the three months ended March 31, 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 March 31,		
	2020	2019	% Change
	$147	$157	(6.4)%

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

Administration Expenses

	Three months ended March 31,		
	2020	2019	% Change
Administration	**$3,751**	$3,864	(2.9)%
As a percentage of total revenues	**5.9%**	6.7%	(80) 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 March 31, 2020, total administration expenses decreased by $113,000, or 2.9%, compared to the same period of 2019, due to lower restricted trust unit ("RTU") expense and salary costs. Administration expense as a percentage of total revenues was 5.9% for Q1-2020, 80 bps lower than Q1-2019.

Fair Value Adjustments

	Three months ended March 31,		
	2020	2019	% Change
Investment properties	**$8**	$27,395	(100.0)%
Deferred unit-based compensation	**500**	(1,240)	140.3%
Exchangeable units	**13,125**	(14,371)	191.3%
	$13,633	$11,784	15.7%

Killam recognized only fair value gains on investment properties in Q1-2020 associated with the treatment of its land leases and accounting requirements under IFRS 16, compared to $27.4 million in fair value gains in Q1-2019. Killam did not make any adjustment to cap-rates in Q1-2020. Due to 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 mid-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 March 31, 2020, there was an unrealized fair value gain of $0.5 million, compared to a $1.2 million loss in Q1-2019, 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 March 31, 2020, there was an unrealized gain on remeasurement of $13.1 million, compared to an unrealized loss of $14.4 million in the same period of 2019, due to a decrease in the market price of Killam's trust units.

Deferred Tax (Recovery) Expense

	Three months ended March 31,		
	2020	2019	% Change
	($3,119)	$2,572	(221.3)%

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 $5.7 million for the three months ended March 31, 2020, compared to the same period 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 March 31,
	Three months ended March 31,			
	2020	2019	% Change	**2020**
Trust units	**98,036**	87,592	11.9%	**98,215**
Exchangeable units	**4,154**	4,153	—%	**4,154**
Basic number of units	**102,190**	91,745	11.4%	**102,369**
Plus:				
Units under RTU plan	**168**	193	(13.0)%	**—**
Diluted number of units	**102,358**	91,938	11.3%	**102,369**

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 months ended March 31, 2020 and 2019 are calculated as follows:

	Three months ended March 31,		
	2020	2019	% Change
Net income	**$38,502**	$27,092	42.1%
Fair value adjustments	**(13,633)**	(11,784)	15.7%
Non-controlling interest	**(3)**	(3)	—%
Internal commercial leasing costs	**81**	79	2.5%
Deferred tax (recovery) expense	**(3,119)**	2,572	(221.3)%
Interest expense on exchangeable units	**692**	671	3.1%
Unrealized loss on derivative liability	**443**	195	127.2%
Depreciation on owner-occupied building	**42**	34	23.5%
Change in principal related to lease liabilities	**8**	32	(75.0)%
FFO	**$23,013**	$18,888	21.8%
FFO per unit - basic	**$0.23**	$0.21	9.5%
FFO per unit - diluted	**$0.22**	$0.21	4.8%
Weighted average number of units - basic (000s)	**102,190**	91,745	11.4%
Weighted average number of units - diluted (000s)	**102,358**	91,938	11.3%

Killam earned FFO of $23.0 million, or $0.22 per unit (diluted), for the three months ended March 31, 2020, compared to $18.9 million, or $0.21 per unit (diluted), for the three months ended March 31, 2019. FFO growth is primarily attributable to contributions from acquisitions and completed developments ($2.1 million), same property NOI growth ($1.8 million), lower deferred financing costs ($0.2 million) and lower general and administration costs ($0.1 million). These increases were partially offset by an 11.3% increase in the 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 units and $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 March 31,		
	2020	2019	% Change
FFO	**$23,013**	$18,888	21.8%
Maintenance capital expenditures	**(4,166)**	(3,979)	4.7%
Commercial straight-line rent adjustment	**(154)**	(106)	45.3%
Internal commercial leasing costs	**(127)**	(195)	(34.9)%
AFFO	**$18,566**	$14,608	27.1%
AFFO per unit - basic	**$0.18**	$0.16	12.5%
AFFO per unit - diluted	**$0.18**	$0.16	12.5%
AFFO payout ratio - diluted	**92%**	102%	(1,000) bps
AFFO payout ratio - rolling 12 months [(1)]	**81%**	84%	(300) bps
Weighted average number of units - basic (000s)	**102,190**	91,745	11.4%
Weighted average number of units - diluted (000s)	**102,358**	91,938	11.3%

[(1)]Based on Killam's annual distribution of $0.66167 for the 12-month period ended March 31, 2020 and $0.64163 for the 12-month period ended March 31, 2019. The calculation uses a maintenance capex reserve for apartments of $900 for the rolling 12 months ending March 31, 2020 and 2019.

The payout ratio of 92% in Q1-2020, compared to the rolling 12-month payout ratio of 81%, corresponds with the seasonality of Killam's business. Killam's first quarter typically has the highest payout ratio due to the lower operating margin in the period attributable to higher heating costs in the winter months. In addition, the MHC portfolio generates its highest revenues and NOI during the second and third quarters of the year due to the contribution from its seasonal communities 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 12.5%, 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 months ended March 31, 2020 and 2019) to ACFO is as follows:

	Three months ended March 31,		
	2020	2019	% Change
Cash provided by operating activities	**$26,408**	$19,574	34.9%
Adjustments:			
Changes in non-cash working capital not indicative of sustainable cash flows	**(2,317)**	1,375	(268.5)%
Maintenance capital expenditures	**(4,166)**	(3,979)	4.7%
Internal commercial leasing costs	**(80)**	(142)	(43.7)%
Amortization of deferred financing costs	**(744)**	(895)	(16.9)%
Interest expense related to lease liability	**(8)**	32	(125.0)%
Non-controlling interest	**(3)**	(3)	—%
ACFO	**$19,090**	$15,962	19.6%
Distributions declared [1]	**17,224**	15,059	14.4%
Excess of ACFO over cash distributions	**$1,866**	$903	106.6%
ACFO payout ratio - diluted [2]	**90%**	94%	(400) 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 2020, $0.055 per unit from March 2019 to February 2020 and $0.05333 per unit from January 2019 to February 2019.

Killam's ACFO payout ratio is 90% for the three months ended March 31, 2020, an decrease of 400 bps from the payout ratio for the three months ended March 31, 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 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 March 31,	
	2020	2019
Net income	**$38,502**	$27,092
Cash provided by operating activities	**$26,408**	$19,574
Total distributions declared	**$17,224**	$15,059
Excess of net income over total distributions declared	**$21,278**	$12,033
Excess of net income over net distributions paid	**$25,507**	$15,519
Excess of cash provided by operating activities over total distributions declared	**$9,184**	$4,515

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

PART VII

Investment Properties

As at

	March 31, 2020	December 31, 2019	% Change
Investment properties	**$3,317,028**	$3,234,410	2.6%
Investment properties under construction ("IPUC")	**58,456**	46,867	24.7%
Land for development	**51,286**	39,327	30.4%
	$3,426,770	$3,320,604	3.2%

Continuity of Investment Properties

As at

	March 31, 2020	December 31, 2019	% Change
Balance, beginning of period	**$3,234,410**	$2,708,617	19.4%
Acquisition of properties	**70,845**	185,763	(61.9)%
Transfer to assets held for sale	—	(15,099)	(100.0)%
Transfer from IPUC	—	36,215	(100.0)%
Capital expenditures	**11,161**	71,495	(84.4)%
Fair value adjustment - Apartments	**(19)**	208,624	(100.0)%
Fair value adjustment - MHCs	—	38,540	(100.0)%
Fair value adjustment - Other	—	(1,549)	(100.0)%
Impact of change in right-of-use asset	**631**	1,804	(65.0)%
Balance, end of period	**$3,317,028**	$3,234,410	2.6%

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 March 31, 2020 and 2019, and December 31, 2019, is as follows:

Capitalization Rates

	March 31, 2020			December 31, 2019			March 31, 2019		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**3.50%**	**8.00%**	**4.75%**	3.50%	8.00%	4.76%	3.72%	8.00%	5.11%
MHCs	**5.00%**	**6.50%**	**5.64%**	5.00%	6.50%	5.65%	5.75%	8.00%	6.62%
Commercial	**5.20%**	**9.00%**	**6.20%**	5.20%	9.00%	6.20%	5.20%	9.00%	6.09%

Killam's weighted average cap-rate for its apartment and MHC portfolios at March 31, 2020 was 4.75% and 5.64%. Cap-rates for the quarter remain flat compared to December 31, 2019. The COVID-19 pandemic has resulted in a higher degree of uncertainty surrounding market values, management estimated cap-rates for the quarter based on the information available. Management reflected the impact of COVID-19 in a reduction of rental growth expectations and high than normal estimates of bad debt expense, impacting NOI in Killam's direct cap-rate valuations.

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)%	$3,652,612	4.40%	$335,584	10%
(0.25)%	3,454,418	4.65%	137,390	4%
—%	3,317,028	4.90%	—	—%
0.25%	3,116,511	5.15%	(200,517)	(6)%
0.50%	2,971,297	5.40%	(345,731)	(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**	—
Total Acquisitions						**$70,450**	$—

(1) Purchase price does not include transaction costs.

Christie Point
On January 15, 2020, Killam completed the acquisition of 161 apartment units in Greater Victoria, BC, for $54.0 million, representing an all-cash yield of 4.08%. The property features five, two-storey buildings and four, two-storey townhouse buildings, which are currently 99% occupied.

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.

Subsequent to March 31, 2020, Killam acquired an apartment complex containing 156 units in Langford, BC, for $60.0 million.

Investment Properties Under Construction

As at

	March 31, 2020	December 31, 2019	% Change
Balance, beginning of period	**$46,867**	$37,163	26.1%
Fair value adjustment	—	774	(100.0)%
Capital expenditures	**7,598**	29,341	(74.1)%
Interest capitalized	**342**	754	(54.6)%
Transfer to investment properties	—	(36,215)	(100.0)%
Transfer from land for development	**3,649**	15,050	(75.8)%
Balance, end of period	**$58,456**	$46,867	24.7%

Killam's definition of IPUC includes only active development projects that have broken ground. Land for future development that is not yet in active development is classified as land for development. Developments underway as at March 31, 2020 include:

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% - 5.5%
10 Harley Street	Charlottetown, PE	100%	38	$10.4	2019	2020	5.25% - 5.5%
Latitude	Ottawa, ON	50%	104	$43.5	2019	2021	5.0% - 5.25%
The Kay	Mississauga, ON	100%	128	$56.0	2019	2022	4.75% - 5.0%
Total [(2)]			348	$131.9			

(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.

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

Shorefront

During 2018, Killam acquired land to commence construction on the 78-unit, five-storey, Shorefront development in Charlottetown, PE. The project budget is approximately $22.0 million ($282,000/unit), resulting in an expected all-cash yield in the range of 5.25% - 5.5%, 50–75 bps premium over the market cap-rate of a similar quality asset. The development broke ground in October 2018 and is scheduled for completion in late 2020. 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 ($264,000/unit). Insurance proceeds from the loss will cover a portion of the reconstruction costs.

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 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 $87.0 million ($43.5 million for Killam's 50% interest). Construction financing is expected to be in place for this project during the second half of 2020.

The Kay

During 2018, Killam received final approval from the city of Mississauga to proceed with The Kay development on land adjacent to its existing 199-unit building. The budget for this development is $56.0 million, or $437,500 per door, 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 competed in early 2022. Construction financing was put in place during Q2-2020 and all remaining development costs will be funded through this financing.

Nolan Hill

Killam's 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 2021. Killam has a commitment to acquire the remaining 90% interest in the building upon completion of Phase 1. The acquisition price upon completion is fixed at $55.0 million.

Land for Development

As at

	March 31, 2020	December 31, 2019	% Change
Balance, beginning of period	**$39,327**	$61,028	(35.6)%
Fair value adjustment	**—**	(1,663)	(100.0)%
Capital expenditures	**1,161**	5,700	(79.6)%
Interest capitalized	**233**	1,513	(84.6)%
Acquisitions	**—**	6,200	(100.0)%
Transfer to IPUC	**(3,649)**	(15,050)	(75.8)%
Transfer from (to) held for sale	**14,214**	(18,401)	(177.2)%
Balance, end of period	**$51,286**	$39,327	30.4%

Assets Held for Sale

Killam determined that a parcel of land for development located in Calgary, AB, previously classified as held for sale no longer met the criteria for this classification. As at March 31, 2020, Killam has reclassified the land as investment properties. The property has a carrying value of $14.2 million (Killam's 40% interest).

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

Killam has a robust development pipeline. Seventy percent of Killam's development pipeline is outside Atlantic Canada. Killam targets yields of 4.75% to 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
Weber Scott Pearl	Kitchener, ON	100%	170	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					
Haviland Street	Charlottetown, PE	100%	99	In design and approval process	2024
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)			**2,644**		

(1) Represents Killam's interest/# of units 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) Killam also owns a 10% interest in a four-phase 829-unit development project. At the completion of construction of the first phase 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 months ended March 31, 2020, Killam invested $11.1 million, compared to $10.6 million for the three months ended March 31, 2019. This increase reflects additional capital allocated to Killam's expanded repositioning programs, offset by timing differences in targeted spending for curb appeal projects to enhance value and timing of multi-phase cladding and building envelope upgrades. 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 is reviewing its capital plan for 2020 in response to COVID-19.

	Three months ended March 31,		
	2020	2019	% Change
Apartments	**$10,106**	$10,118	(0.1)%
MHCs	**308**	429	(28.2)%
Commercial	**639**	42	1,421.4%
	$11,053	$10,589	4.4%

Apartments - Capital Investment

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

	Three months ended March 31,		
	2020	2019	% Change
Building improvements	**$3,659**	$5,763	(36.5)%
Suite renovations	**5,207**	3,189	63.3%
Appliances	**571**	416	37.3%
Boilers and heating equipment	**240**	427	(43.8)%
Other	**429**	323	32.8%
Total capital invested	**$10,106**	$10,118	(0.1)%
Average number of units outstanding (1)	**16,009**	15,891	0.7%
Capital invested - $ per unit	**$631**	$637	(0.9)%

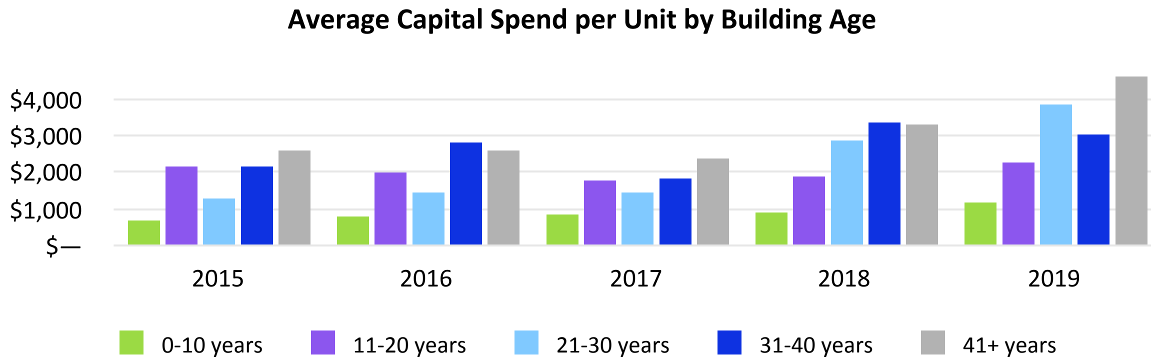
(1) Weighted average number of units, adjusted for Killam's 50% ownership in jointly held properties.

Killam invested $631 per unit for the three months ended March 31, 2020, compared to $637 per unit for the same period of 2019. This minor decrease is attributable to timing of larger capital projects, which will not commence until the spring and summer months.

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)

The chart below highlights that the total capital investment per unit is less for newer properties (built in the last 10 years), averaging $1,220 per unit, compared to $4,460 per unit for buildings over 40 years old.



Building Improvements
Of the $10.1 million total capital invested in the apartment segment for the three months ended March 31, 2020, approximately 36% was invested in building improvements, compared to 57% of the total capital investment for the three months ended March 31, 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 variance relates primarily to the timing of multi-phase building envelope projects, exterior and interior upgrades to modernize properties and an increase in suite renovation investments.

Suite Renovations and Repositionings
Killam invested $5.2 million in suite renovations during the three months ended March 31, 2020, a 63.3% increase over the total investment of $3.2 million for the three months ended March 31, 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 increases. Killam targets a minimum return on investment of 10% for its suite renovations with monthly rental rate increases 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. During Q1-2020, Killam has completed upgrades to 95 units, with an average investment of approximately $25,000 per suite, an average ROI of 13%.

Killam plans to continue its suite reposition program in 2020; however, the number of repositions completed will depend upon the impact and duration of COVID-19. In the long-term, the opportunity to reposition units within Killam's current portfolio totals approximately 3,000 units, which could generate an estimated $10.0 million in additional annualized revenue and an approximate $195 million increase in NAV.

Expanding our Sustainability Focus
Killam continued to execute on its energy efficiency plan during Q1-2020. Killam will continue to invest in additional energy efficiency initiatives, which could include the installation of photovoltaic solar panels at select properties, water conservation projects and heating efficiencies. 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 with third-party validation.

MHCs - Capital Investment
A summary of the capital investment for the MHC segment is included below:

	Three months ended March 31,		
	2020	2019	% Change
Water and sewer upgrades	**$194**	$329	(41.0)%
Site expansion and land improvements	**96**	2	N/A
Other	**18**	98	(81.6)%
Total capital invested - MHCs	**$308**	$429	(28.2)%
Average number of sites	**5,794**	5,427	6.8%
Capital invested - $ per site	**$53**	$79	(32.9)%

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 months ended March 31, 2020 was $0.3 million, down from $0.4 million in the three months ended March 31, 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 months ended March 31, 2020, Killam invested $0.6 million in its commercial portfolio, up from $42.0 thousand for the three months ended March 31, 2019. This investment relates primarily to significant upgrades at the Brewery Market as Killam continues to reposition this property, as well as common area upgrades at Westmount Place. Approximately 34% of the total capital spend relates to tenant improvements which will be cash flow generating once leases commence.

Mortgages and Other Loans

The table below outlines Killam's key debt metrics:

As at	**March 31, 2020**	December 31, 2019	Change
Weighted average years to debt maturity	**4.8**	4.5	0.3 years
Total debt to total assets	**44.4%**	43.4%	100 bps
Interest coverage	**3.27x**	3.20x	2.2%
Debt service coverage	**1.58x**	1.57x	0.6%
Debt to normalized EBITDA (1)	**10.31x**	10.15x	1.6%
Weighted average mortgage interest rate	**2.86%**	2.90%	(4) 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 March 31, 2020, was 2.86%, 4 bps lower compared to the rate as at December 31, 2019.

Total debt as a percentage of total assets was 44.4% at March 31, 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 first quarter of 2020 that were acquired in late 2019, and a higher balance on Killam's credit facilities at March 31, 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)%	$3,652,612	$3,794,847	40.5%	(390)
(0.25)%	$3,454,418	$3,596,653	42.8%	(160)
—%	$3,317,028	$3,459,264	44.4%	—
0.25%	$3,121,762	$3,263,997	47.1%	270
0.50%	$2,971,297	$3,113,532	49.4%	500

Refinancings

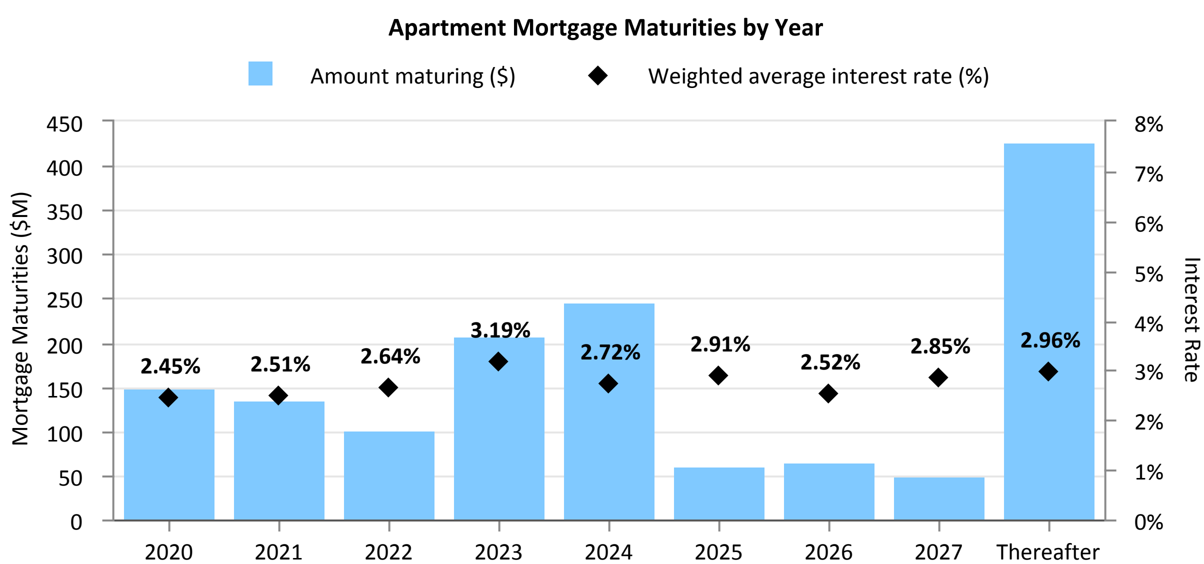
For the three months ended March 31, 2020, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$59,021	3.07%	$60,882	2.31%	9.3 years	$1,861
MHCs	7,479	3.40%	11,485	2.92%	5.0 years	4,006
	$66,500	3.11%	$72,367	2.41%	8.7 years	$5,867

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 March 31	Weighted Avg Int. Rate %	% CMHC Insured	Balance March 31	Weighted Avg Int. Rate %	Balance March 31 (1)	Weighted Avg Int. Rate %
2020	$148,883	2.45%	65.0%	$6,045	3.52%	$154,928	2.49%
2021	135,251	2.51%	83.7%	8,510	3.61%	143,761	2.58%
2022	102,196	2.64%	70.7%	22,593	3.67%	124,789	2.82%
2023	207,542	3.19%	67.9%	32,365	3.77%	239,907	3.27%
2024	246,569	2.72%	94.7%	13,538	3.49%	260,107	2.76%
2025	60,313	2.91%	100.0%	11,427	2.93%	71,740	2.91%
Thereafter	540,791	2.90%	100.0%	—	—%	540,791	2.90%
	$1,441,545	2.81%	87.2%	$94,478	3.57%	$1,536,023	2.86%

(1) Excludes $10.8 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at March 31, 2020.



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 favourable rates. As at March 31, 2020, approximately 87.2% of Killam's apartment mortgages were CMHC-insured (81.9% 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 2.74% as at March 31, 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	37	$17,507	$148,309
MHCs with debt maturing	4	957	6,075
	41	$18,464	$154,384

2021 Debt Maturities	**Number of Properties**	**Estimated NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	37	$16,543	$126,713
MHCs with debt maturing	4	1,061	5,987
	41	$17,604	$132,700

During the second quarter Killam has refinanced or locked in rates for eleven apartment mortgage refinancings as part of its regular refinancing schedule. All refinancings were for a 5-year term at a weighted-average interest rate of 1.6%.

Future Contractual Debt Obligations

As at March 31, 2020, the timing of Killam's future contractual debt obligations is as follows:

Twelve months ending March 31,	**Mortgage and Loans Payable**	**Construction Loans**	**Credit Facilities [1]**	**Total**
2021	$222,169	$5,461	$20,000	$247,630
2022	205,066	—	—	205,066
2023	138,081	—	—	138,081
2024	235,362	—	—	235,362
2025	274,779	—	—	274,779
Thereafter	471,365	—	—	471,365
	$1,546,822	**$5,461**	**$20,000**	**$1,572,283**

(1) Killam's $70 million credit facility expires in December 2020; however, the 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. Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at March 31, 2020, Killam has assets with a carrying value of $83.8 million pledged as first mortgage ranking and $345.4 million pledged as second mortgage ranking to the line and a balance outstanding of $20.0 million (December 31, 2019 - $nil). The agreement includes certain covenants and undertakings with which Killam was in compliance as at March 31, 2020. The facility expires in December 2020, 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 facility was increased from $5.0 million during Q1-2020. As at March 31, 2020, Killam had assets with a carrying value of $1.9 million pledged as collateral (December 31, 2019 - $1.9 million) and letters of credit totaling $1.3 million outstanding against the facility (December 31, 2019 - $1.3 million). The agreement includes certain covenants and undertakings with which Killam was in compliance as at March 31, 2020.

As at March 31, 2020	Maximum Loan Amount [(1)]	Amount Drawn	Letters of Credit	Amount Available
$70.0 million facility	$90,000	$20,000	$—	$70,000
$10.0 million facility	10,000	—	1,332	8,668
Total	**$100,000**	**$20,000**	**$1,332**	**$78,668**

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	$0	$1,282	$93,718

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

Construction Loans

As at March 31, 2020, Killam had access to a floating rate non-revolving demand construction loan, for the purpose of financing its Shorefront development, totaling $15.5 million. Payments are made monthly on an interest-only basis. The construction loan has an interest rate of 150 bps above BAs. Once construction is complete and rental targets achieved, the construction loan will be repaid in full and replaced with conventional mortgages. The underlying asset with a carrying value of $17.1 million is pledged as collateral against this loan.

During April 2020, Killam also secured construction financing for The Kay and 10 Harley Street. Management expects construction financing associated with its Latitude development to be finalized during Q2-2020.

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 months ended March 31, 2020, no unitholders redeemed units.

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

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.

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

Distribution Reinvestment Plan and Net Distributions Paid

	Three months ended March 31,		
	2020	2019	% Change
Distributions declared on trust units	**$16,472**	$14,318	15.0%
Distributions declared on exchangeable units	**692**	671	3.1%
Distributions declared on awards outstanding under RTU plan	**60**	70	(14.3)%
Total distributions declared	**$17,224**	$15,059	14.4%
Less:			
Distributions on trust units reinvested	**(4,169)**	(3,416)	22.0%
Distributions on RTUs reinvested	**(60)**	(70)	(14.3)%
Net distributions paid	**$12,995**	$11,573	12.3%
Percentage of distributions reinvested	**24.6%**	23.1%	

Liquidity and Capital Resources

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

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

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

(ii) Killam's $70.0 million revolving credit facility has an accordion feature to increase the facility up to $90.0 million. As at May 6, 2020, Killam had $30.0 million drawn on its credit facility, with access to $60.0 million of additional capital.

(iii) Mortgage refinancings and construction loans are expected to be sufficient to fund value-enhancing capex, principal repayments and developments. Killam has $154.4 million of mortgage debt scheduled for refinancing during the remainder of 2020, expected to lead to upfinancing opportunities of approximately $40.0 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, including five renewals on May 1, 2020 and six renewals locked in for June 1, 2020.

(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 March 31, 2020 was 44.4%.

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 May 6, 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 of Killam in a material manner.

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 months ended March 31, 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 March 31, 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 March 31, 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 months ended March 31, 2020, APM was paid $0.3 million in construction management fees (March 31, 2019 - $0.3 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 April 15, 2020, Killam announced a distribution of $0.05667 per unit, payable on May 15, 2020, to unitholders of record on April 30, 2020.

On April 30, 2020, Killam acquired an apartment complex containing 156 apartment units in Langford, BC, for $60.0 million. The acquisition was partially funded with a $35.0 million mortgage.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remain 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.