Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2015 and 2014

(Unaudited)

Condensed Consolidated Interim Statements of Financial Position

In thousands of Canadian dollars,
(Unaudited)

	Note	June 30, 2015	December 31, 2014
ASSETS			
Non-current assets			
Investment properties	[3]	**$1,799,425**	$1,733,895
Property and equipment	[4]	**4,918**	4,854
Loans receivable		**4,950**	4,000
		1,809,293	1,742,749
Current assets			
Cash		**13,782**	18,847
Rent and other receivables		**4,545**	1,954
Inventory		**158**	139
Other current assets		**18,008**	11,545
		36,493	32,485
TOTAL ASSETS		**$1,845,786**	$1,775,234
EQUITY AND LIABILITIES			
Shareholders' equity		**$663,401**	$648,029
Accumulated other comprehensive loss ("AOCL")	[16]	**(177)**	(198)
Non-controlling interest		**14,880**	14,852
Total Equity		**678,104**	662,683
Non-current liabilities			
Mortgages and loans payable	[6]	**783,670**	729,474
Convertible debentures	[8]	**98,782**	97,967
Other liabilities		**5,371**	1,916
Deferred tax		**111,929**	105,958
		999,752	935,315
Current liabilities			
Mortgages and loans payable	[6]	**121,753**	115,248
Construction loans	[7]	**15,887**	31,944
Accounts payable and accrued liabilities		**30,290**	30,044
		167,930	177,236
Total Liabilities		**1,167,682**	1,112,551
TOTAL EQUITY AND LIABILITIES		**$1,845,786**	$1,775,234

See accompanying notes to the condensed consolidated interim financial statements.

Approved on Behalf of the Board

(signed) "G. Wayne Watson"
Director

(signed) "Philip D. Fraser"
Director

Condensed Consolidated Interim Statements of Income and Comprehensive Income

In thousands of Canadian dollars (except per share amounts), (Unaudited)

	Note	Three months ended		Six months ended	
		June 30, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
Property revenue		**$41,452**	$36,518	**$80,988**	$71,583
Property operating expenses		**(16,256)**	(15,077)	**(35,137)**	(32,522)
Net operating income		**25,196**	21,441	**45,851**	39,061
Other income					
Equity income	[5]	-	166	-	334
Home sales	[11]	**6**	26	**10**	36
Corporate income		**343**	205	**717**	383
		349	397	**727**	753
Other expenses					
Financing costs	[12]	**(9,209)**	(8,680)	**(18,322)**	(17,290)
Depreciation		**(190)**	(153)	**(370)**	(298)
Amortization of deferred financing costs		**(466)**	(419)	**(929)**	(831)
Administration		**(2,727)**	(2,285)	**(4,882)**	(4,048)
		(12,592)	(11,537)	**(24,503)**	(22,467)
Income before fair value (loss) gain, (loss) gain on disposition and income taxes		**12,953**	10,301	**22,075**	17,347
Fair value (loss) gain	[3]	**(613)**	8,200	**180**	8,200
(Loss) gain on disposition		**(183)**	-	**(183)**	94
Income before income taxes		**12,157**	18,501	**22,072**	25,641
Current tax recovery		**-**	327	-	327
Deferred tax expense		**(3,215)**	(4,128)	**(5,962)**	(6,213)
Net income		**$8,942**	$14,700	**$16,110**	$19,755
Other comprehensive loss					
Item that may be reclassified subsequently to net income					
Amortization of loss in AOCL to finance costs (net of tax - $5 and $9)	[16]	**11**	-	**21**	-
Unrealized loss on forward interest rate hedge (net of tax - $44 and $70)	[16]	**-**	(107)	**-**	(169)
Comprehensive income		**$8,953**	$14,593	**$16,131**	$19,586
Net income attributable to:					
Common shareholders		**8,753**	13,671	**15,675**	18,540
Non-controlling interest		**189**	1,029	**435**	1,215
		$8,942	$14,700	**$16,110**	$19,755
Comprehensive income attributable to:					
Common shareholders		**8,764**	13,564	**15,696**	18,371
Non-controlling interest		**189**	1,029	**435**	1,215
		$8,953	$14,593	**$16,131**	$19,586
Net income per share attributable to common shareholders:					
-basic		**$0.14**	$0.25	**$0.26**	$0.34
-diluted		**$0.14**	$0.23	**$0.25**	$0.32

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

In thousands of Canadian dollars,
(Unaudited)

Six months ended June 30, 2015

	Share Capital	**Contributed Surplus**	**Other Paid-in Capital**	**Retained Earnings**	**AOCL**	**Non-Controlling Interest**	**Total Equity**
At January 1, 2015	**$459,138**	**$2,417**	**$5,681**	**$180,793**	**$ (198)**	**$14,852**	**$662,683**
Net income	**-**	**-**	**-**	**15,675**	**-**	**435**	**16,110**
Amortization of loss on forward interest rate hedge	**-**	**-**	**-**	**-**	**21**	**-**	**21**
Dividends	**-**	**-**	**-**	**(18,576)**	**-**	**-**	**(18,576)**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(407)**	**(407)**
Dividend reinvestment plan	**2,849**	**-**	**-**	**-**	**-**	**-**	**2,849**
Stock options exercised	**3,458**	**(486)**	**-**	**-**	**-**	**-**	**2,972**
Share-based compensation	**-**	**534**	**-**	**-**	**-**	**-**	**534**
Issuance of shares for acquisitions	**12,000**	**-**	**-**	**-**	**-**	**-**	**12,000**
Restricted share units redeemed	**147**	**(229)**	**-**	**-**	**-**	**-**	**(82)**
At June 30, 2015	**$477,592**	**$2,236**	**$5,681**	**$177,892**	**$(177)**	**$14,880**	**$678,104**

Six months ended June 30, 2014

	Share Capital	Contributed Surplus	Other Paid-in Capital	Retained Earnings	AOCL	Non-Controlling Interest	Total Equity
At January 1, 2014	$398,181	$2,302	$5,681	$184,560	$-	$13,336	$604,060
Net income	-	-	-	18,540	-	1,215	19,755
Other comprehensive loss	-	-	-	-	(169)	-	(169)
Dividends	-	-	-	(16,542)	-	-	(16,542)
Distributions to non-controlling interest	-	-	-	-	-	(450)	(450)
Dividend reinvestment plan	1,417	-	-	-	-	-	1,417
Stock options exercised	821	(98)	-	-	-	-	723
Share-based compensation	-	511	-	-	-	-	511
Issuance of shares for acquisitions	800	-	-	-	-	-	800
Restricted share units redeemed	49	(55)	-	-	-	-	(6)
At June 30, 2014	$401,268	$2,660	$5,681	$186,558	$(169)	$14,101	$610,189

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

In thousands of Canadian dollars,
(Unaudited)

		Three months ended		Six months ended	
		June 30, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
OPERATING ACTIVITIES					
Net income		**$8,942**	$14,700	**$16,110**	$19,755
Add (deduct) items not affecting cash					
Fair value loss (gain)	[3]	**613**	(8,200)	**(180)**	(8,200)
Depreciation and amortization		**656**	572	**1,299**	1,129
Non-cash compensation expense		**124**	118	**137**	139
Equity income		**-**	(166)	**-**	(334)
Deferred income taxes		**3,215**	4,128	**5,962**	6,213
Current tax recovery		**-**	(327)	**-**	(327)
Loss (gain) on disposition		**183**	-	**183**	(94)
Financing costs	[12]	**9,209**	8,680	**18,322**	17,290
Interest paid	[15]	**(10,784)**	(8,934)	**(18,554)**	(16,048)
Net change in non-cash operating activities	[15]	**(3,176)**	(7,387)	**(8,927)**	(5,069)
Cash provided by operating activities		**$8,982**	$3,184	**$14,352**	$14,454
FINANCING ACTIVITIES					
Increase in deferred financing		**(1,272)**	(1,576)	**(2,564)**	(3,504)
Proceeds on issuance of common shares		**1,078**	225	**2,941**	808
Mortgage financing		**58,313**	71,281	**105,346**	124,175
Mortgages repaid on maturity		**(25,434)**	(32,872)	**(44,095)**	(69,629)
Mortgage principal repayments		**(7,660)**	(5,567)	**(14,173)**	(11,348)
Proceeds from construction loans		**3,742**	4,501	**9,152**	5,393
Construction loans repaid on maturity		**(15,206)**	-	**(25,206)**	-
Distributions paid to non-controlling interest		**(188)**	(211)	**(407)**	(450)
Dividends		**(7,509)**	(7,482)	**(15,592)**	(14,921)
Cash provided by financing activities		**$5,864**	$28,299	**$15,402**	$30,524
INVESTING ACTIVITIES					
Decrease in restricted cash		**1,644**	2,207	**82**	1,192
Increase in loan receivable		**-**	(4,000)	**-**	(4,000)
Increase in investment in joint venture, net of distributions		**-**	36	**-**	150
Net proceeds on sale of land		**50**	-	**50**	134
Acquisition and development of investment properties, net of debt assumed		**(13,742)**	(25,558)	**(21,206)**	(49,795)
Capital expenditures		**(8,906)**	(7,193)	**(13,745)**	(11,725)
Cash used in investing activities		**$(20,954)**	$(34,508)	**$(34,819)**	$(64,044)
Net decrease in cash		**(6,108)**	(3,025)	**(5,065)**	(19,066)
Cash, beginning of the period		**19,890**	11,637	**18,847**	27,678
Cash, end of period		**$13,782**	$8,612	**$13,782**	$8,612

See accompanying notes to the condensed consolidated interim financial statements.

1. Corporate Information

Killam Properties Inc. ("Killam" or the "Company") is a real estate company specializing in the acquisition, management and development of multi-residential apartment buildings and manufactured home communities ("MHCs") in Canada. Killam is incorporated under the Canada Business Corporations Act. Killam's common shares are publicly traded and listed on the Toronto Stock Exchange under the symbol "KMP". The condensed consolidated interim financial statements comprise the financial statements of Killam and its subsidiaries as at June 30, 2015**.** The Company's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the Company's registered office is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4.

The condensed consolidated interim financial statements of the Company for the period ended June 30, 2015, were authorized for issue in accordance with a resolution of the Board of Directors on August 5, 2015.

2. Significant Accounting Policies

(A) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with *IAS 34 Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB, have been omitted or condensed.

(B) Basis of Presentation

The condensed consolidated interim financial statements of the Company have been prepared on a historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The condensed consolidated interim financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is Killam's functional currency, and all values are rounded to the nearest thousand ($000), except share, per share or as noted amounts.

The condensed consolidated interim financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies were presented in Note 2 to the consolidated financial statements for the year ended December 31, 2014, and, after the changes described in Note 2(c), have been consistently applied in the preparation of these condensed consolidated interim financial statements.

The operating results for the three and six months ended June 30, 2015, are not necessarily indicative of results that may be expected for the full year ended December 31, 2015, due to seasonal variations in property expenses and other factors.

(C) Basis of Consolidation

On March 31, 2015, the Company acquired 50% of the shares of a Corporation, which owns vacant land for future development. The Company has determined that it controls the Corporation, and therefore consolidates the Corporation's assets, liabilities and the results of its operations. As the Company will purchase the remaining 50% of the shares in the Corporation upon completion of the development, the non-controlling interest is recorded as a liability, and is included in other non-current long-term liabilities.

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

3. Investment Properties

As at and for the six month period ended June 30, 2015

Segment	Apartments	MHCs	Other	IPUC	Total
Level	3	3	3	3	
Balance, beginning of period	**$1,568,203**	**$122,629**	**$2,223**	**$40,840**	**$1,733,895**
Fair value gain included in net income					
Fair value gain on investment property	**237**	**(57)**	**-**	**-**	**180**
Acquisitions and dispositions					
Acquisitions	**8,428**	**-**	**22,315**	**10,700**	**41,443**
Dispositions	**-**	**-**	**-**	**(1,143)**	**(1,143)**
Other movements					
Transfer from IPUC	**36,147**	**-**	**-**	**(36,147)**	**-**
Transfer to IPUC	**(2,300)**	**-**	**-**	**2,300**	**-**
Capital expenditure on investment property	**11,944**	**998**	**369**	**-**	**13,311**
Capital expenditure on IPUC	**-**	**-**	**-**	**10,977**	**10,977**
Interest capitalized on IPUC	**-**	**-**	**-**	**762**	**762**
Balance, end of period	**$1,622,659**	**$123,570**	**$24,907**	**$28,289**	**$1,799,425**

As at and for the year ended December 31, 2014

Segment	Apartments	MHCs	Other	IPUC	Total
Level	3	3	3	3	
Balance, beginning of year	$1,334,153	$115,414	$2,176	$24,373	$1,476,116
Fair value (loss) gain included in net income					
Fair value (loss) gain on investment property	(298)	4,730	-	336	4,768
Acquisitions and dispositions					
Acquisitions	231,618	-	-	-	231,618
Dispositions	(41,464)	(40)	-	-	(41,504)
Other movements					
Transfer from IPUC	14,098	-	-	(14,098)	-
Capital expenditure on investment property	30,096	2,525	47	-	32,668
Capital expenditure on IPUC	-	-	-	29,013	29,013
Interest capitalized on IPUC	-	-	-	1,216	1,216
Balance, end of year	$1,568,203	$122,629	$2,223	$40,840	$1,733,895

During the three and six months ended June 30, 2015, the Company capitalized salaries of $0.7 million and $1.4 million (three and six months ended June 30, 2014 - $0.8 million and $1.5 million), as part of its project improvement, suite renovation and development programs.

For the three and six months ended June 30, 2015, interest costs associated with the general corporate borrowings used to fund development have been capitalized to the respective development using the Company's weighted average borrowing rate of 3.74% (December 31, 2014 - 3.93%). Interest costs associated with construction loans are capitalized to the respective development using the actual borrowing rate associated with the loan.

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

3. Investment Properties (continued)

Investment properties with a fair value of $1,761.2 million at June 30, 2015, (December 31, 2014 - $1,683.4 million) are pledged as collateral against the Company's mortgages payable.

Class of property	Fair value at June 30, 2015	Fair value at December 31, 2014	Valuation technique	Unobservable inputs	2015 Inputs	2014 Inputs
Apartments			Capitalization of	- Capitalization rate (weighted average)	**5.61%**	5.63%
-Level 3	**$1,622,659**	$1,568,203	stabilized net	- Vacancy rate (weighted average)	**3.60%**	3.60%
			income approach	- Management fee rate	**3.50%**	3.50%
MHCs			Capitalization of	- Capitalization rate (weighted average)	**6.65%**	6.69%
-Level 3	**$123,570**	$122,629	stabilized net	- Vacancy rate	**1.70%**	1.70%
			income approach	- Management fee rate	**3.00%**	3.00%

The investment property segment defined as Other (level 3) consists of two commercial properties.

IPUC includes properties under construction and land held for future development and is recorded at cost of $28.3 million (December 31, 2014 - $40.8 million) as fair value cannot be reliably determined.

Sensitivity Analysis

The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy include cap-rates, vacancy rates and management fee rates. Investment property valuations are most sensitive to changes in the cap-rate. The cap-rate assumptions for the investment properties are included in the following table:

	June 30, 2015			December 31, 2014		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments			**5.61%**			5.63%
Halifax	5.00%	7.00%	5.60%	5.00%	7.00%	5.60%
Moncton	5.15%	8.00%	5.93%	5.15%	8.00%	5.95%
Fredericton	5.15%	6.25%	5.89%	5.15%	6.25%	5.89%
Saint John	6.00%	6.75%	6.42%	6.25%	6.75%	6.53%
St. John's	5.00%	6.00%	5.76%	5.15%	6.00%	5.83%
Charlottetown	5.50%	6.20%	5.93%	5.50%	6.20%	5.89%
Ontario	4.50%	5.10%	4.95%	4.50%	5.10%	4.96%
Alberta	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Other Atlantic	5.75%	7.00%	6.60%	5.75%	7.00%	6.83%
MHCs			**6.65%**			6.69%
Ontario	7.00%	8.00%	7.22%	7.00%	8.00%	7.25%
Nova Scotia	5.75%	7.00%	6.20%	5.75%	7.50%	6.25%
New Brunswick	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Newfoundland	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

3. Investment Properties (continued)

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

Class of property	Capitalization rate		Vacancy rate	Management fee rate
	10 basis points increase	*10 basis points decrease*	*1% increase/ decrease in vacancy*	*1% increase/ decrease in management fees*
Apartments	$(28,442)	$29,475	$22,956	$25,926
MHCs	$(1,830)	$1,886	$1,601	$2,079

4. Property and Equipment

As at	June 30, 2015 Cost	June 30, 2015 Accumulated Depreciation	December 31, 2014 Cost	December 31, 2014 Accumulated Depreciation
Land	**$270**	**$ -**	$270	$ -
Building	**1,824**	**180**	1,824	156
Heavy equipment	**222**	**87**	222	81
Vehicles	**1,314**	**413**	1,271	399
Furniture, fixtures and equipment	**4,415**	**3,174**	4,080	2,885
Leaseholds	**859**	**132**	803	95
	8,904	**3,986**	8,470	3,616
Less: accumulated depreciation	**(3,986)**		(3,616)	
	$4,918		$4,854	

Land and building represents the Company's ownership of a 50% interest in the land and building that its head office occupies. Under IFRS, owner-occupied property is required to be accounted for as property and equipment and not investment property.

Property with a carrying value of $1.7 million (December 31, 2014 - $1.7 million) is pledged as collateral against the Company's mortgage payable.

5. Investments in Joint Venture

A joint venture, previously accounted for using the equity method, was dissolved on December 9, 2014, and Killam purchased the remaining 75% ownership interest in the properties. Subsequent to the purchase, Killam sold a 50% interest in two of the properties to a third-party and these properties are now accounted for as joint operations.

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

6. Mortgages and Loans Payable

As at	June 30, 2015 Weighted Average Interest	June 30, 2015 Debt Balance	December 31, 2014 Weighted Average Interest	December 31, 2014 Debt Balance
Mortgages and loans payable				
Fixed rate	**3.41%**	**$892,618**	3.60%	$839,813
Variable rate	**4.28%**	**7,638**	4.14%	4,760
Vendor financing	**3.05%**	**5,167**	6.81%	149
Total		**$905,423**		$844,722
Current		**121,753**		115,248
Non-current		**783,670**		729,474
		$905,423		$844,722

Mortgages are collateralized by a first charge on the properties of the Company and vendor mortgages are collateralized by either a second charge on the property and/or a general corporate guarantee.

As of June 30, 2015, unamortized deferred financing costs of $19.1 million (December 31, 2014 - $17.2 million) and mark-to-market premiums on mortgages assumed on acquisitions of $1.1 million (December 31, 2014 – $1.2 million) are netted against mortgages and loans payable.

Estimated future principal payments required to meet mortgage obligations as at June 30, 2015, are as follows:

	Principal repayments by 12 month periods ended June 30,
2016	$121,753
2017	130,039
2018	111,592
2019	157,311
2020	165,324
Subsequent	237,494
	923,513
Unamortized deferred financing costs	(19,144)
Unamortized mark-to-market adjustments	1,054
	$905,423

The Company has two credit facilities with major financial institutions, which are set out as follows:

I. A $2.0 million revolving demand facility that can be used for the Company's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 bps on prime rate advances or 225 bps over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at June 30, 2015, the Company had assets with a carrying value of $1.9 million pledged to the line and a balance outstanding of $Nil (December 31, 2014 - $Nil). The agreement includes certain covenants and undertakings of which the Company is in compliance.

II. A $1.5 million revolving demand facility that can be used for the Company's acquisition program and for general business purposes. The interest rate on the debt is prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at June 30, 2015, the Company had assets with a carrying value of $1.1 million pledged as collateral and letters of credit totaling $1.5 million outstanding against the facility (December 31, 2014 - $1.5 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

7. Construction Loans

At June 30, 2015, the Company had access to two floating rate non-revolving demand construction loans totaling $28.1 million for the purpose of financing the development projects. Payments are made monthly on an interest only basis. The construction loans have interest rates ranging from prime to prime plus 0.75%. Once construction has been completed and rental targets achieved, the construction loans will be repaid in full and converted into conventional mortgages. As at June 30, 2015, $15.9 million (December 31, 2014 - $31.9 million) was drawn at a weighted average interest rate of 3.74% (December 31, 2014 - 3.84%).

8. Convertible Debentures

Face Interest Rate %	Effective Interest Rate %	Conversion Price	Face Amount	Maturity	June 30, 2015	December 31, 2014
5.65%	7.30%	$13.40	$57,500	November 30, 2017	**$55,484**	$55,108
5.45%	6.30%	$14.60	$46,000	June 30, 2018	**45,007**	44,859
					100,491	99,967
Less: Deferred financing charges					**(1,709)**	(2,000)
					$98,782	$97,967

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

9. Capital Stock and Contributed Surplus

Capital Stock

Authorized:

Unlimited number of common shares, with no par value
Unlimited number of preferred shares, issuable in series, with no par value

Issued:
The following table summarizes the changes in issued common shares of the Company:

	2015		2014	
	Number of Shares	**Value**	Number of Shares	Value
Balance, January 1	**60,475,978**	**$459,138**	54,458,774	$398,181
Dividend reinvestment plan	**96,438**	**1,010**	64,575	671
Stock options exercised	**234,917**	**2,191**	102,500	561
Stock issued for acquisitions	**1,092,548**	**12,000**	75,330	800
Restricted share units redeemed	**12,566**	**147**	2,733	32
Balance, March 31	**61,912,447**	**$474,486**	54,703,912	$400,245
Dividend reinvestment plan	**174,157**	**1,839**	72,539	746
Stock options exercised	**132,990**	**1,267**	31,250	260
Restricted share units redeemed	**-**	**-**	1,401	17
Balance, June 30	**62,219,594**	**$477,592**	54,809,102	$401,268

Contributed Surplus

	2015	2014
Balance, January 1	**$2,417**	$2,302
Stock options expensed	**-**	3
Stock options exercised	**(274)**	(67)
Restricted share units issued	**409**	390
Restricted share units redeemed	**(229)**	(32)
Balance, March 31	**$2,323**	$2,596
Stock options expensed	**-**	1
Stock options exercised	**(212)**	(31)
Restricted share units issued	**125**	117
Restricted share units redeemed	**-**	(23)
Balance, June 30	**$2,236**	$2,660

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

10. Share-Based Compensation

Share-based compensation expense for the three and six months ended June 30, 2015 and 2014 is as follows:

	For the three months ended June 30, 2015	2014	For the six months ended June 30, 2015	2014
Stock option plan	**$-**	$1	**$-**	$4
Restricted share unit plan	**125**	117	**233**	226
Total share-based compensation expense	**$125**	$118	**$233**	$230

Options exercised during the three and six months ended June 30 are as follows:

	2015 Number of Options	**2015** Weighted Average Exercise Price	2014 Number of Options	2014 Weighted Average Exercise Price
Outstanding, January	**367,907**	**$8.16**	550,407	$7.66
Exercised	**(234,917)**	**8.16**	(102,500)	5.71
Outstanding, March 31	**132,990**	**$8.16**	447,907	$8.10
Exercised	**(132,990)**	**8.16**	(31,250)	7.34
Outstanding, June 30	-	**$-**	416,657	$8.16

The following table summarizes the stock options outstanding:

As at	**June 30, 2015**			December 31, 2014		
Exercise Price	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$8.16	-	-	-	367,907	0.40 years	367,907
	-		-	367,907		367,907

All outstanding stock options were exercised as of May 28, 2015.

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

10. Share-Based Compensation (Continued)

The details of the restricted share units issued under the restricted share unit plan are shown below:

	Number of RSUs	**2015 Weighted Average Issue Price**	Number of RSUs	2014 Weighted Average Issue Price
Outstanding, January 1	**140,513**	**$11.01**	94,345	$12.34
Granted	**61,228**	**10.87**	62,672	10.37
Redeemed	**(20,420)**	**12.64**	(2,847)	12.14
Additional restricted share distributions	**1,937**	**10.74**	1,428	12.25
Outstanding, March 31	**183,258**	**$10.78**	155,598	$11.53
Granted	**6,000**	**10.41**	5,918	10.56
Redeemed	**-**	**-**	(2,044)	12.68
Additional restricted share distributions	**2,604**	**10.60**	2,272	10.32
Outstanding, June 30	**191,862**	**$10.77**	161,744	$11.46

11. Home Sales

	Three months ended June 30,		**Six months ended June 30,**	
	2015	2014	**2015**	2014
Home sales revenues	**$192**	$374	**$313**	$820
Cost of home sales	**(179)**	(331)	**(284)**	(751)
New home placement fees	**8**	-	**8**	-
Operating expenses	**(15)**	(17)	**(27)**	(33)
Income from home sales	**$6**	$26	**$10**	$36

12. Financing Costs

	Three months ended June 30,		**Six months ended June 30,**	
	2015	2014	**2015**	2014
Mortgage, loan and construction loan interest	**$7,983**	$7,346	**$15,923**	$14,566
Amortization of fair value adjustments on assumed debt	**(154)**	(124)	**(276)**	(251)
Amortization of loss on interest rate hedge	**11**	-	**21**	-
Convertible debenture interest	**1,704**	1,685	**3,416**	3,368
Capitalized interest	**(335)**	(227)	**(762)**	(393)
	$9,209	$8,680	**$18,322**	$17,290

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

13. Per Share Information

The following is the weighted average number of shares outstanding for the three and six months ended June 30, 2015, and 2014.

For the three months ended June 30,	**2015**	2014
Weighted average number of shares outstanding - basic	**62,060,420**	54,751,924
Unexercised dilutive options	**114,533**	110,901
Restricted share units	**184,805**	154,974
Convertible debentures	**10,157,017**	9,810,427
Weighted average number of shares outstanding - diluted	**72,516,775**	64,828,226

For the six months ended June 30,	**2015**	2014
Weighted average number of shares outstanding - basic	**61,571,762**	54,679,256
Unexercised dilutive options	**164,432**	142,134
Restricted share units	**172,595**	136,749
Convertible debentures	**10,157,017**	9,810,427
Weighted average number of shares outstanding - diluted	**72,065,806**	64,768,566

The following is the adjustment to net income applicable to common shareholders used in the diluted earnings per share calculation.

For the three months ended June 30,	**2015**	2014
Net income applicable to common shareholders	**$8,753**	$13,671
Adjustment for dilutive effect of convertible debentures	**1,192**	1,180
Adjusted net income for diluted per share amounts	**$9,945**	$14,851

For the six months ended June 30,	**2015**	2014
Net income applicable to common shareholders	**15,675**	$18,540
Adjustment for dilutive effect of convertible debentures	**2,391**	2,357
Adjusted net income for diluted per share amounts	**$18,066**	$20,897

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

14. Segmented Information

The Company operates in two rental segments of the multi-family residential industry: apartments and MHCs, all located in Canada. The accounting policies of these segments are the same as those described in Note 2 of the consolidated financial statements for the year ended December 31, 2014. The segments are analyzed based on net operating income before interest, amortization and administration costs. The operating results, assets and liabilities, and capital expenditures of the segments are as follows:

For the three months ended June 30, 2015	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$36,736**	**$3,682**	**$1,034**	**$41,452**
Property operating expenses	**(14,390)**	**(1,347)**	**(519)**	**(16,256)**
Net operating income	**$22,346**	**$2,335**	**$515**	**$25,196**
Home sales, equity income & corporate income	-	-	**349**	**349**
Financing costs	**(6,918)**	**(621)**	**(1,670)**	**(9,209)**
Depreciation and amortization	**(305)**	**(49)**	**(302)**	**(656)**
Administration	**(394)**	**(107)**	**(2,226)**	**(2,727)**
Income before fair value (loss) gain, (loss) gain on disposition and income taxes	**$14,729**	**$1,558**	**$(3,334)**	**$12,953**
Capital expenditures on investment properties	**$7,836**	**$576**	**$364**	**$8,776**

For the three months ended June 30, 2014	Apartments	MHCs	Other	Total
Property revenue	$32,844	$3,531	$143	$36,518
Property operating expenses	(13,682)	(1,308)	(87)	(15,077)
Net operating income	$19,162	$2,223	$56	$21,441
Home sales, equity income & corporate income	-	-	397	397
Financing costs	(6,484)	(645)	(1,551)	(8,680)
Depreciation and amortization	(239)	(36)	(297)	(572)
Administration	(414)	(102)	(1,769)	(2,285)
Income before fair value gain, gain on disposition and income taxes	$12,025	$1,440	$(3,164)	$10,301
Capital expenditures on investment properties	$6,338	$524	$5	$6,867

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

14. Segmented Information (continued)

For the six months ended June 30, 2015	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$73,360**	**$6,463**	**$1,165**	**$80,988**
Property operating expenses	**(31,921)**	**(2,595)**	**(621)**	**(35,137)**
Net operating income	**41,439**	**3,868**	**544**	**45,851**
Home sales, equity income & corporate income	**-**	**-**	**727**	**727**
Financing costs	**(13,902)**	**(1,244)**	**(3,176)**	**(18,322)**
Depreciation and amortization	**(610)**	**(97)**	**(592)**	**(1,299)**
Administration	**(768)**	**(190)**	**(3,924)**	**(4,882)**
Income before fair value (loss) gain, loss on disposition and income taxes	**$26,159**	**$2,337**	**$(6,421)**	**$22,075**
Capital expenditures on investment properties	**$11,944**	**$998**	**$369**	**$13,311**

For the six months ended June 30, 2014	Apartments	MHCs	Other	Total
Property revenue	$64,864	$6,428	$291	$71,583
Property operating expenses	(29,860)	(2,487)	(175)	(32,522)
Net operating income	35,004	3,941	116	39,061
Home sales, equity income & corporate income	-	-	753	753
Financing costs	(12,847)	(1,294)	(3,149)	(17,290)
Depreciation and amortization	(488)	(88)	(553)	(1,129)
Administration	(723)	(179)	(3,146)	(4,048)
Income before fair value gain, gain on disposition and income taxes	$20,946	$2,380	$(5,979)	$17,347
Capital expenditures on investment properties	$10,272	$747	$9	$11,028

As at June 30, 2015	**Apartments**	**MHCs**	**Other**	**Total**
Total assets	$1,610,826	$153,928	$81,032	$1,845,786
Total liabilities	$877,783	$59,980	$229,919	$1,167,682

As at December 31, 2014	Apartments	MHCs	Other	Total
Total assets	$1,572,049	$149,058	$54,127	$1,775,234
Total liabilities	$842,283	$58,395	$211,873	$1,112,551

There are no transactions with a single tenant that account for 10% or more of the Company's revenues.

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

15. Supplemental Cash Flow Information

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Net income items related to investing and financing activities				
Interest paid on mortgages payable and other	**$7,906**	$7,186	**$15,676**	$14,300
Interest paid on convertible debentures	**2,878**	1,748	**2,878**	1,748
	$10,784	$8,934	**$18,554**	$16,048
Changes in non-cash operating assets and liabilities				
Rent and other receivables	**$(2,306)**	$690	**$(2,591)**	$53
Income tax receivable	**-**	(1,450)	**-**	(1,450)
Inventory	**(11)**	63	**(19)**	229
Other current assets	**(1,742)**	(2,827)	**(6,551)**	(6,474)
Accounts payable and accrued liabilities	**883**	(3,863)	**234**	2,573
	$(3,176)	$(7,387)	**$(8,927)**	$(5,069)

16. Accumulated Other Comprehensive Loss

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Balance, beginning of period	**$(188)**	$-	**$(198)**	$-
Amortization of loss in AOCL to finance costs (net of tax $5 and $9)[(1)]	**11**	-	**21**	**-**
Unrealized loss of forward interest rate hedge (net of tax $44 and $70)	**-**	(107)	**-**	(169)
Balance, end of period	**$(177)**	$(107)	**$(177)**	$(169)

(1) The cumulative aggregate loss of $198 thousand on the forward interest rate hedge will be amortized into net income as financing costs over the mortgage term, which ends in September 2020.

17. Financial Risk Management Objectives and Policies

The Company's principal financial liabilities are comprised of mortgages, construction loans, debentures and trade payables. The main purpose of these financial liabilities is to finance the Company's investment properties and operations. The Company has various financial assets such as trade receivables and cash, which arise directly from its operations.

The Company may also enter into derivative transactions, primarily interest rate swap contracts to manage interest rate risk arising from fluctuations in bond yields, as well as natural gas and oil swap contracts to manage price risk arising from fluctuations in these commodities. The Company entered into one derivative contract during 2014 and has not entered into any derivative transactions in 2015. It is, and has been, the Company's policy that no speculative trading in derivatives shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk, credit risk and liquidity risk. These risks are managed as follows:

(i) Interest rate risk

The Company is exposed to interest rate risk as a result of its mortgages and loans payable, however this risk is mitigated through the Company's strategy to have the majority of its mortgages payable in fixed-term arrangements, as well as, at times, entering into cash flow hedges. The Company also structures its financings so as to stagger the maturities of its debt, minimizing the Company's exposure to interest rate volatility in any one year.

As at June 30, 2015, no mortgages or vendor debt had floating interest rates except for six demand loans totaling $7.6 million and two revolving demand facilities. These loans and facilities have interest rates of prime plus 1.0% - 2.0% (December 31, 2014 - prime plus 1.0% - 2.0%). Killam also has two construction loans totaling $15.9 million with floating interest rates ranging from prime to prime plus 0.75% and consequently, Killam is exposed to short-term interest rate risk on these loans.

An annualized 100 bps change in the interest rate on Killam's entire mortgage and vendor debt at June 30, 2015, would affect financing costs by approximately $9.2 million per year. However, only $94.4 million of Killam's fixed mortgage and vendor debt matures in the next twelve months. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $0.9 million per year.

(ii) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The Company mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing and the Company also obtains a security deposit to assist in potential recovery requirements. In addition, the receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant. The Company's bad debt expense experience has historically been less than 0.4% of revenues. None of Killam's tenants account for more than 1% of the tenant receivables as at each of the period-ends presented in these financial statements. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

17. Financial Risk Management Objectives and Policies (continued)

(iii) Liquidity risk

Management manages the Company's cash resources based on financial forecasts and anticipated cash flows. The Company structures its financings so as to stagger the maturities of its debt, thereby minimizing the Company's exposure to liquidity risk in any one year. In addition, the Company's apartments qualify for CMHC insured debt, thereby reducing the refinancing risk on mortgage maturities. The Company's MHCs do not qualify for CMHC insured debt, however, they continue to have access to mortgage debt. Management does not anticipate liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector.

During the three and six months ended June 30, 2015, the Company refinanced $24.1 million and $42.7 million of maturing apartment mortgages with new mortgages totaling $34.1 million and $65.6 million for net proceeds of $10.0 million and $22.9 million. As well, during the three and six months ended June 30, 2015, the Company refinanced $1.4 million of a maturing MHC mortgage for net proceeds of $1.5 million.

The following table presents the principal payments and maturities of the Company's liabilities over the next five years as at June 30,2015:

For the twelve months ended June 30,	Mortgage and loans payable	Construction loans	Convertible debentures	Total
2016	$121,753	$15,887	$ -	**$137,640**
2017	130,039	-	-	**130,039**
2018	111,592	-	57,500	**169,092**
2019	157,311	-	46,000	**203,311**
2020	165,324	-	-	**165,324**
Thereafter	237,494	-	-	**237,494**
	$923,513	$15,887	$103,500	**$1,042,900**

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, issue new shares, issue debt securities or adjust mortgage financing on properties.

The Company monitors capital using a total debt to total assets ratio. The Company's strategy is for its total debt to total assets ratio to not exceed 65%. The calculation of the total debt to total assets is summarized as follows:

As at	June 30, 2015	December 31, 2014
Mortgages, loans payables and construction loans	**$921,310**	$876,666
Convertible debentures	**98,782**	97,967
Total debt	**$1,020,092**	$974,633
Total assets	**$1,845,786**	$1,775,234
Total debt as a percentage of total assets	**55.3%**	54.9%

The above calculation is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. A 10 bps increase in the weighted average cap-rate as at June 30, 2015, would increase the debt as a percentage of assets by 90 bps.

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

17. Financial Risk Management Objectives and Policies (continued)

Fair Value Measurement

Financial instruments are defined as a contractual right or obligation to receive or deliver cash or another financial asset. The following table presents the classification, subsequent measurement, carrying values and fair values of the Company's financial assets and liabilities:

		June 30, 2015		December 31, 2014	
Classification	Subsequent Measurement	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Loans receivable (a)	Amortized cost	**$4,950**	**$4,983**	$4,000	$4,027
Financial Liabilities:					
Mortgages (b)	Amortized cost	**$905,423**	**$976,433**	$844,722	$941,158
Convertible debentures (c)	Amortized cost	**$98,782**	**$103,528**	$97,967	$103,996

The fair value of cash and cash equivalents, as well as the Company's short-term financial instruments, comprising accounts receivable, restricted cash, accounts payable and accrued liabilities, security deposits, loans and construction loans, which approximate carrying value due to their short-term nature or because they are based on current market rates.

(a) The fair value of the loan receivable is based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Company might receive or pay in actual market transactions (level 2).

(b) The fair value of mortgages are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions (level 2).

(c) The fair value of the convertible debentures are based on a quoted market price as at the reporting date (level 1).

The interest rates used to discount the estimated cash flows, when applicable, are based on the 5-year government yield curve at the reporting date, plus an adequate credit spread, and were as follows:

As at	**June 30, 2015**	December 31, 2014
Mortgages - Apartments	**1.62%**	2.11%
Mortgages - MHCs	**3.42%**	3.91%

As at June 30, 2015, and December 31, 2014, the Company did not have any financial assets or liabilities measured at fair value on the consolidated statements of financial position.

18. Related Party Transactions

Killam contracted APM Construction Services Inc. ("APM") to act as Project Manager on a development project in St. John's, NL, which was completed in March 2015. APM is an entity controlled by a director of Killam. APM was paid an industry standard management fee of approximately 4% of the construction costs. For the three and six months ended June 30, 2015, Killam paid APM \$30 thousand and \$54 thousand for construction management services (June 30, 2014 - \$0.1 million and \$0.2 million). As of June 30 2015, Killam does not have any construction projects on-going with APM.

As at June 30, 2015, rent and other receivables included a \$0.3 million receivable from a director related to an option exercise. This balance has been paid subsequent to quarter-end.

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a company controlled by an executive and director of Killam. In addition, the property manager for the commercial complex is controlled by the executive and director and is paid an industry standard property management fee. Occasionally, Killam will also pay market leasing placement fees, to the company controlled by an executive and director of Killam, for placement of a commercial tenant in a property owned by Killam.

On March 31, 2015, Killam acquired the Brewery Market, located in Halifax, NS, from Halkirk Properties Limited, for \$22.3 million, which is partially owned by a director of Killam. Killam also acquired a 50% interest in a Corporation, which owns vacant land adjacent the Brewery Market for future development. The remaining 50% is also owned by Halkirk Properties Limited.

19. Subsequent Events

On July 17, 2015, the Company announced a dividend of \$0.05 per share, payable on August 17, 2015, to shareholders of record on July 31, 2015.

On August 5, 2015, Killam closed the acquisition of 5880 Spring Garden Road, 1489/1491 Carlton Street, 1483 Carlton Street and 1471 Carlton Street in Halifax, Nova Scotia. The existing properties are a combination of commercial and residential assets and are located directly across from Killam's Spring Garden Terrace. The largest of the properties is known as the Medical Arts Building, an 18,000 square foot office building. Killam plans to redevelop the properties in the future. The total purchase price of \$8.4 million was satisfied with the issuance of \$2.5 million of common shares of Killam, and the balance in cash. Killam expects to place mortgages of \$4.5 million on the properties during Q3-2015.