Q2-2015 Management's Discussion & Analysis

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

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PART I

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the years ended December 31, 2014, and 2013. The consolidated financial statements for the years ended December 31, 2014, and 2013, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with the Company's 2014 Annual Information Form, are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at August 5, 2015.

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 the Company'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 statements, 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 which 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 the Company. Readers are cautioned that such statements may not be appropriate and should not be used for any other purpose.

Non-IFRS Measures

There are measures included in this MD&A that do not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures as a means of measuring financial performance.

- Net operating income ("NOI") is calculated by the Company as income from property operations. The use of NOI when referring to a particular segment is calculated as property revenue less property operating costs for that segment.
- Funds from operations ("FFO") are calculated by the Company as net income plus deferred tax expense, fair value loss, depreciation on owner-occupied property, loss on disposition and tax planning costs relating to the Company's potential REIT conversion, less fair value gain, gain on disposition and non-controlling interest. Killam's definition of FFO is calculated in accordance with the REALpac definition except for the add back of REIT tax planning costs as noted above. REALpac does not address this specific type of adjustment.
- Adjusted funds from operations ("AFFO") are calculated by the Company as FFO less the industry standard of $450 per apartment unit for "maintenance" versus "NOI enhancing" related capital costs and $100 per Manufactured Home Community ("MHC") site, although the MHC industry does not have a standard amount for "maintenance" related capital costs.
- Same store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2015 and 2014 (91% of the portfolio based on the June 30, 2015 unit count).
- Capitalization Rate ("cap-rate") is the rate calculated by dividing the forecasted NOI from a property by the property's fair value.
- Interest coverage is calculated by dividing the earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense.
- Debt service coverage is calculated by dividing the earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense and principal mortgage repayments.

PART II

Business Overview

Killam Properties Inc., based in Halifax, Nova Scotia ("NS"), is one of Canada's largest residential landlords, owning, operating, managing and developing multi-family residential and MHC properties. Killam's 173 apartment properties are located predominantly in Atlantic Canada's six largest urban centres, Ontario ("ON") and Calgary, Alberta ("AB"). The Company's 35 MHCs are located in Ontario and Atlantic Canada. The value of Killam's real estate assets at June 30, 2015, was $1.8 billion. Killam is focused on increasing FFO per share, growing its portfolio and maximizing the value of its properties.

Killam was founded in 2000, based on the recognition of an opportunity to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam's first apartment was purchased in 2002 and its first MHC was purchased in 2003. From 2002 to 2009, Killam's apartment portfolio grew through the acquisition of properties in Atlantic Canada's six largest cities, namely Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown. Killam is now Atlantic Canada's largest residential landlord, with a 13.6% market share of the multi-family rental units in these core markets.

Killam entered the Ontario apartment market in 2010, and today has investments in fifteen properties in the province, including apartments in Toronto, Ottawa, London and Cambridge. In 2014, Killam acquired its first apartment property in Calgary. Killam plans to expand its presence in Ontario and Western Canada with additional acquisitions and developments.

Since 2010, Killam has complemented its acquisition program with the construction of apartment buildings and has completed seven projects to date. Currently, the Company has one project under construction expected to be completed in 2016. The apartment business is Killam's largest business segment, accounting for 90% of the Company's NOI from property operations for the six months ended June 30, 2015. At June 30, 2015, Killam's apartment portfolio consisted of 13,647 units.

In addition, the Company owns MHCs, also known as land-lease communities or trailer parks. Killam owns the land and infrastructure supporting each community and leases the lots to tenants who own their own homes and pay Killam monthly site rent. Killam owns 35 communities (5,165 sites) which accounted for 8% of Killam's NOI for the six months ended June 30, 2015.

In the first half of 2015, Killam completed the acquisition of a 158,000 square foot commercial property. The NOI generated from this property combined with the income generated from Killam's head office properties accounted for the remaining 2% of the Company's NOI.

Key Performance Indicators ("KPIs")

Management measures Killam's performance based on the following KPIs:

1) FFO per Share – A standard measure of earnings for real estate entities. Management is focused on growing FFO per share on an annual basis.

2) Rental Increases – Management expects to achieve increases in average rental rates on an annual basis and measures the average rate increases achieved.

3) Occupancy – Management is focused on maximizing occupancy levels while also managing the impact of higher rents. This measure is a percentage based on vacancy divided by gross potential residential rent (in dollars) of total stabilized properties for the quarter.

4) Same Store NOI Growth – This measure considers the Company's ability to increase the NOI at same-store properties, removing the impact of acquisitions, dispositions, developments and other non-same store operating adjustments.

5) Weighted Average Interest Rate of Total Debt – Killam monitors the weighted average cost of its mortgage debt and total debt.

6) Debt to Total Assets – Killam measures its debt levels as a percentage of total assets and works to ensure that the debt to total assets does not exceed 65%.

7) Term to Maturity – Management monitors the average number of years to maturity on its debt.

8) 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.

9) Debt Service Coverage Ratio – A common measure of credit risk used by lenders, this measure considers Killam's ability to pay interest and principal on outstanding debt. Generally, the higher the debt service coverage ratio, the lower the credit risk.

Q2-2015 Management's Discussion & Analysis

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

Financial and Operational Highlights

The following table presents a summary of Killam's financial and operating performance for the three and six months ended June 30, 2015, and 2014:

Results of Operations

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
Property revenue	**$41,452**	$36,518	13.5%	**$80,988**	$71,583	13.1%
NOI	**$25,196**	$21,441	17.5%	**$45,851**	$39,061	17.4%
Income before fair value (loss) gain, (loss) gain on disposition and income taxes	**$12,953**	$10,301	25.7%	**$22,075**	$17,347	27.3%
Fair value (loss) gain	**$(613)**	$8,200	(107.5)%	**$180**	$8,200	(97.8)%
Net income attributable to common shareholders	**$8,753**	$13,671	(36.0)%	**$15,675**	$18,540	(15.5)%
Earnings per share (diluted)	**$0.14**	$0.23	(39.1)%	**$0.25**	$0.32	(21.9)%
FFO	**$12,912**	$10,173	26.9%	**$21,835**	$17,009	28.4%
FFO per share (diluted)	**$0.21**	$0.18	16.7%	**$0.35**	$0.31	12.9%
AFFO per share (diluted)	**$0.18**	$0.16	12.5%	**$0.30**	$0.26	15.4%
Weighted average number of shares outstanding (diluted)(1) (000's)	**62,360**	55,020	13.3%	**61,909**	54,958	12.6%

(1) Calculated per the FFO calculation as defined on Page 21 of the MD&A.

Same Store Results

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
Same store revenue	**$35,504**	$34,708	2.3%	**$70,123**	$68,512	2.4%
Same store expenses	**(14,266)**	(14,284)	(0.1)%	**(31,018)**	(31,071)	(0.2)%
Same store NOI	**$21,238**	$20,424	4.0%	**$39,105**	$37,441	4.4%

Balance Sheet

	As at June 30, 2015	As at December 31, 2014	Change
Investment properties	**$1,799,425**	$1,733,895	3.8%
Total assets	**$1,845,786**	$1,775,234	4.0%
Total liabilities	**$1,167,682**	$1,112,551	5.0%
Total equity	**$678,104**	$662,683	2.3%

Ratios

	As at June 30, 2015	As at December 31, 2014	Change
Total debt to total assets	**55.3%**	54.9%	40 bps
Weighted average mortgage interest rate	**3.41%**	3.60%	(19) bps
Weighted average years to debt maturity	**4.4**	4.4	-
Interest coverage (rolling twelve months)	**2.25x**	2.18x	7 bps
Debt service coverage (rolling twelve months)	**1.35x**	1.32x	3 bps

Summary of Q2-2015 Results and Operations

16.7% Growth in FFO per Share

Killam generated FFO per share growth of 16.7% quarter-over-quarter, earning $0.21 in Q2-2015 compared to $0.18 in Q2-2014. The earnings growth was attributable to same store property NOI growth of 4.0%, contributions from stabilized developments and acquisitions, and interest expense savings from refinancings.

Same Store Revenue Growth of 2.3%

Same store revenue growth of 2.3% was achieved through a 1.1% and 3.4% increase in rental rates related to the apartment and MHC portfolios, as well as a 60 basis point ("bps") increase in apartment occupancy and a 50 bps reduction in rental discounts and incentives.

All regions contributed positively to revenue growth with the largest net revenue gains observed in St. John's (3.2%), Charlottetown (3.1%) and other Atlantic regions (6.9%). Killam's largest rental market, Halifax, generated a 1.7% increase in same store property revenue during Q2-2015.

Reduction in Same Store Property Expenses

Same store property operating expenses decreased 0.1% in Q2-2015 driven by a 4.3% reduction in oil and natural gas costs. Killam also benefited from reduced water consumption through its on-going upgrade to low-flow water fixtures, resulting in an increase in water costs of only 2.1%, despite an average rate increase in Halifax of 8.0%. Killam also managed controllable costs, limiting same store operating expenses to a modest increase of 2.0% through a continued focus on regional efficiencies. These savings were partially offset by a 30% increase in snow removal costs during the quarter as harsh winter weather in Atlantic Canada continued into April 2015.

Same Store NOI Growth of 4.0%

Killam's same store revenue growth of 2.3% and the slight decline in total property expenses resulted in a healthy 4.0% increase in same store NOI for the quarter. All regions boasted positive same store NOI growth, with the largest NOI gains observed in Fredericton (7.2%), Charlottetown (6.0%) and other Atlantic regions (13.4%). Killam's largest rental market, Halifax, generated a 2.6% increase in same store NOI during Q2-2015.

Developments and Acquisitions Contribute Positively to FFO per Share

Acquisitions completed throughout 2015 and 2014, the recently completed Chelsea Place and two previous developments that were stabilized partway through 2014, contributed $1.7 million to FFO growth in the quarter.

During the second quarter Killam acquired a newly constructed, 59-unit concrete building in Saint John, NB, adjacent another property owned by Killam, for $8.3 million ($140,000 per unit). The purchase price was satisfied with a new CMHC insured mortgage for $6.0 million and the balance in cash. The capitalization rate on the acquisition was 6.1%. As part of the transaction Killam sold the vendor a 34,000 square foot lot in Moncton for $1.0 million and provided a vendor take-back interest only mortgage of $0.95 million at 6.5% for five years. The Company also completed its first development in Ontario, Saginaw Gardens, at the end of the second quarter. The building contains 122 units and is currently 72% leased. Killam expects the building to be fully occupied by the end of 2015.

Interest Cost Savings

Killam successfully refinanced $24.1 million of maturing apartment mortgages with $34.1 million of new debt at a weighted average interest rate of 1.90%, 152 bps lower than the weighted average interest rate prior to refinancing, all for 5-year terms. The Company also refinanced one MHC mortgage at 3.43%, 194 bps lower than the weighted average interest rate prior to refinancing (5-year term). The Company's weighted average interest rate decreased to 3.41% at June 30, 2015, from 3.60% at December 31, 2014.

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

Performance Compared to 2015 Key Objectives

Consolidation of Multi-family Residential Real Estate Market and Increase Investment in New Properties	
2015 Target	Complete a minimum of $75 million in acquisitions and continue to develop two current development projects on schedule and within 5% of budget.
2015 Performance	Killam completed $35.8 million in acquisitions during the first half of the year. In addition to the acquisition of the Brewery Market in Halifax and 50% interest in the adjacent land during Q1, Killam acquired a 59-unit building in Saint John, NB, for $8.3 million during Q2-2015. This building was constructed in 2014 and was fully occupied on acquisition. Year-to-date Killam has completed two development projects. Chelsea Place, a 102-unit development in St. John's was completed on time and on budget in the first quarter of 2015. Saginaw Gardens, a development in Cambridge, ON, containing 122 units, was completed in the second quarter on time and on budget. Chelsea Place is fully leased and Saginaw Gardens is 72% leased.

Geographic Diversification	
2015 Target	Killam's 2015 acquisition program is to have over 50% of its 2015 acquisitions outside Atlantic Canada, with a focus on Ontario and Alberta.
2015 Performance	Killam did not complete any acquisitions outside Atlantic Canada during the first half of 2015. The Company continues to look for opportunities to acquire properties in certain Ontario markets as well as Alberta, and maintains its acquisition target of 50% outside Atlantic Canada for 2015. Achieving this target will be dependent on the strength of both the acquisition pipeline and the capital markets.

Growth in Same Store Net Operating Income	
2015 Target	Same Store NOI growth of 0% to 2% (increased to 2% to 4%).
2015 Performance	Killam achieved positive same store NOI growth of 4.4% the first half of 2015. Given the positive results year-to-date, the Company has increased its same store NOI growth target for 2015 to 2% - 4%.

Outlook

NOI growth for Same Store Properties

Management expects to generate positive same store NOI growth during the second half of 2015 and into 2016. Economic growth in Atlantic Canada and an anticipated decrease in the number of Atlantic Canadians moving west, given lower oil prices, are expected to generate higher occupancy in the region. When combined with rental rate increases and moderate expense growth, Management expects to achieve positive NOI growth of 2% to 4% for 2015.

Recently Completed Developments Contribute to FFO Growth

Phase II of Chelsea Place, representing 39 of the 102-unit development in St. John's, was completed in March 2015, and Saginaw Gardens, the 122-unit building in Cambridge, was completed in June 2015. Both developments will contribute positively to FFO per share growth during the second half of 2015 and in 2016.

Developments to Drive Portfolio Growth

Based on the relatively low yields available from the acquisition market, and the relatively higher returns available from development, Management plans to increase its focus on development for future growth. Killam's $14.7 million Southport development project is underway in Halifax and the Company expects to begin construction of Phase I of the Alexander, a 240-unit building in Halifax, during Q3-2015.

Killam owns development land for approximately 1,300 additional apartment units; 200 of these units are based in Ontario. Management expects to begin construction of one or two additional developments in 2016. See further discussion on land held for future development in the "Investment Properties" section of the MD&A.

Natural Gas Pricing to Remain Uncertain in Near-Term

Constrained natural gas pipelines and storage capacity in New England and Atlantic Canada, coupled with increased demand from utilities in New England and colder than normal weather in the winters of 2014 and 2015, resulted in historically high natural gas prices over the last three winters. Although natural gas prices have dropped dramatically since March 2015, Management remains cautious until the supply constraints in Atlantic Canada are addressed.

Management is encouraged by the fact the Northeastern US is also exposed to these gas supply constraints and resulting price volatility, so there is strong motivation to find a permanent solution. Projects are already underway to address the pricing issue, including the construction of a natural gas storage facility in Nova Scotia by AltaGas and proposed pipeline expansions in New England. Drilling of three natural gas storage wells located 60 kilometers from Halifax began in August 2014 and may be ready for gas storage in 2018. The initial target capacity of the storage facility is between 4.0 and 4.5 billion cubic feet (Bcf), with the potential to expand to 10 Bcf. Heritage Gas Limited ("Heritage"), Killam's natural gas distributor in Nova Scotia and a subsidiary of AltaGas, has contracted a significant portion of this capacity, subject to regulatory approval. The project will allow Heritage to purchase and store natural gas at low summer rates and access the gas during periods of higher pricing during cold weather, resulting in more affordable natural gas prices in Nova Scotia during the winter months.

Capacity solutions are also underway in New England. Spectra Energy has proposed three pipeline expansion projects which are expected to lead to more stable and affordable gas prices in New England in the future. These projects include the Algonquin Incremental Market (AIM) Project, the Atlantic Bridge Project and the New England Energy Reliability Solution. Timing for the three projects varies, but could result in more moderate pricing starting as early as 2016. All three projects are projected to be completed by 2018.

Management will continue to work closely with its gas distributors to manage its exposure to natural gas prices.

Interest Savings on Refinancings

Subsequent to quarter-end Killam refinanced an additional three apartment mortgages totaling $6.7 million at a weighted average interest rate of 2.20%, 184 bps below the weighted average interest rate of 4.04%. Killam expects to generate $0.6 million in annualized interest savings from mortgages refinanced to-date in 2015. Killam has $45.9 million of apartment debt maturing during the remainder of 2015.

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

Large Economic Projects in Atlantic Canada

Large economic projects are expected to drive economic and population growth in Atlantic Canada, especially in Nova Scotia. With the modernization of its Halifax shipyard complete, Irving Shipbuilding Inc. expects to begin construction on the first phase of its $25 billion shipbuilding contract starting in September 2015. This project is expected to generate jobs in Halifax and contribute positively to the overall economy. Similarly, in New Brunswick, Irving's $450 million investment in its mill upgrade is providing an important catalyst to the Saint John economy. A summary of large economic projects, either proposed or underway, include:

Province	Project[1]	Commitment/ Size ($)	Term	Estimated # of Jobs	Comments
Nova Scotia	Irving Shipbuilding Contract	$25 billion	25-year contract to start in 2015	1,000-1,500 direct up to 11,500 indirect	Irving is finishing the $350 million modernization of the Halifax Shipyard and expects to begin cutting steel in September 2015 for the first phase of the contract, supplying six Arctic Offshore Patrol Ships. The second and more significant phase of the contract, building approximately 15 surface combatant ships, is expected to begin in 2020.
	Energy Exploration off NS Coast	$2.1 billion (British Petroleum and Shell Canada)	6 years (exploration phase) 2013-2019	Not available	Shell and its partners expect to drill their first exploration well during the second half of 2015. BP expects to drill its first exploration well in 2017. This offshore oil activity has the potential to lead to long-term investment and employment opportunities in the region.
	Various Halifax Construction Projects	$1-2 billion	3-4 years	Not available	Investments made in a new convention centre, two new military facilities and various real estate projects in Halifax.
New Brunswick	Energy East Pipeline	$12 billion (proposed total project cost)	6 years (development phase)	3,700 during development; 385 during 40-year operating phrase	Application to National Energy Board in October 2014. An estimated $2.8 billion GDP contribution for NB during this project. TransCanada announced in April 2015 that it would delay the start of the construction with a new expected in-service date of 2020 for New Brunswick.
	Saint John Mill Upgrade	$450 million	3 years 2014-2017	600 direct	Two-phase upgrade began in 2014, corresponding with a 20% increase in the NB softwood that will be made available to the forestry industry.
Newfoundland and Labrador	Muskrat Falls Hydro Project	$7.0 billion	5 years 2012-2017	1,500 direct with peak of 3,100	Construction of the 824 megawatt hydroelectric dam is underway, as well as the transmission line between Muskrat Falls and Churchill Falls.
	Maritime Link	$1.6 billion	4 years 2013-2017	Average of 300 direct, with a peak of 600	Subsea cable designed to transport electricity from NL to NS. Construction began in 2014. The first power is planned for delivery in 2017.
	Hebron Oil Project	$14 billion	10 years 2010-2014	3,000 - 3,500 direct	The reserve estimate for Hebron is over 700 million barrels of oil. The project started in 2010 and will run until 2024. Suncor has reconfirmed its commitment to Hebron (Jan 13, 2015) and expects it to come online in 2017. Development drilling will continue until 2024.

(1) Project details including commitment, size, term and job growth are taken from various sources, such as company press releases, economic studies and related websites.

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

Portfolio Summary

Apartment Portfolio

The following table summarizes Killam's apartment portfolio by market as at and for the six months ended June 30, 2015:

	Units(1)	Number of Properties	% of Apartment NOI
Nova Scotia			
Halifax(2)	5,056	55	40.3%
Sydney	139	2	1.3%
	5,195	57	41.6%
New Brunswick			
Moncton	1,629	31	9.4%
Fredericton	1,394	20	9.1%
Saint John	1,202	14	4.7%
Miramichi	96	1	0.6%
	4,321	66	23.8%
Ontario(3)			
Ottawa	780	9	4.9%
London	264	2	4.2%
Cambridge	347	3	3.1%
Toronto	378	2	3.8%
	1,769	16	16.0%
Newfoundland and Labrador			
St. John's	915	12	8.0%
Grand Falls	148	2	0.9%
	1,063	14	8.9%
Prince Edward Island			
Charlottetown	906	17	6.4%
Summerside	86	2	0.4%
	992	19	6.8%
Alberta(3)			
Calgary	307	1	2.9%
Total	**13,647**	**173**	**100.0%**

(1) Unit count includes properties held through Killam's partnerships and joint arrangements.

(2) Killam owns a 49% interest in, and manages, Garden Park Apartments, a 246-unit building located in Halifax, NS. Killam's 49% ownership interest represents 120 of the 246 units related to this property.

(3) Killam owns and manages three buildings located in Ontario and one building in Alberta through a joint arrangement, with Killam having a 50% ownership interest in all four properties. Killam's ownership interest represents 402 of the 804 units related to these properties.

Manufactured Home Communities Portfolio

The following table summarizes Killam's MHC investment by province as at and for the six months ended June 30, 2015:

	Sites	Number of Communities	% of MHC NOI
Nova Scotia	2,626	16	55.2%
Ontario	2,145	16	41.0%
New Brunswick	224	1	-%
Newfoundland and Labrador	170	2	3.8%
Total	**5,165**	**35**	**100.0%**

Commercial Portfolio

Killam has a 50% ownership in two commercial properties containing 70,000 square feet of retail and office space located in Halifax, NS. In 2015 Killam acquired a commercial property located in Halifax that contains 158,000 square feet of retail and office space, and a parcel of adjacent land for a 290-unit apartment development. In addition, Killam's apartment portfolio includes 118,000 square feet of commercial space.

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PART III

Q2-2015 Financial Overview

Consolidated Results

For the three months ended June 30,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$41,452**	$36,518	13.5%	**$35,504**	$34,708	2.3%	**$5,948**	$1,810	228.6%
Property expenses									
Operating expenses	**(6,682)**	(6,159)	8.5%	**(5,957)**	(5,843)	2.0%	**(725)**	(316)	129.4%
Utility and fuel expenses	**(4,666)**	(4,594)	1.6%	**(4,277)**	(4,470)	(4.3)%	**(389)**	(124)	213.7%
Property taxes	**(4,908)**	(4,324)	13.5%	**(4,032)**	(3,971)	1.5%	**(876)**	(353)	148.2%
Total property expenses	**(16,256)**	(15,077)	7.8%	**(14,266)**	(14,284)	(0.1)%	**(1,990)**	(793)	150.9%
NOI	**$25,196**	$21,441	17.5%	**$21,238**	$20,424	4.0%	**$3,958**	$1,017	289.2%
Operating margin	**60.8%**	58.7%	210 bps	**59.8%**	58.8%	100 bps	**66.5%**	56.2%	1,030 bps

For the six months ended June 30,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$80,988**	$71,583	13.1%	**$70,123**	$68,512	2.4%	**$10,865**	$3,071	253.8%
Property expenses									
Operating expenses	**(13,414)**	(12,168)	10.2%	**(11,759)**	(11,610)	1.3%	**(1,655)**	(558)	196.6%
Utility and fuel expenses	**(12,117)**	(11,813)	2.6%	**(11,204)**	(11,514)	(2.7)%	**(913)**	(299)	205.4%
Property taxes	**(9,606)**	(8,541)	12.5%	**(8,055)**	(7,947)	1.4%	**(1,551)**	(594)	161.1%
Total property expenses	**(35,137)**	(32,522)	8.0%	**(31,018)**	(31,071)	(0.2)%	**(4,119)**	(1,451)	183.9%
NOI	**$45,851**	$39,061	17.4%	**$39,105**	$37,441	4.4%	**$6,746**	$1,620	316.4%
Operating margin	**56.6%**	54.6%	200 bps	**55.8%**	54.6%	120 bps	**62.1%**	52.8%	930 bps

Total property revenue for the three and six months ended June 30, 2015, was $41.5 million and $81.0 million, a 13.5% and 13.1% increase in revenue over the same periods in 2014. Property revenue for the three and six months ended June 30, 2014, excludes the 25% ownership interest in three properties that were previously held through a joint venture as the associated earnings were recorded as equity income. Removing the impact of the equity income, revenue would have increased for the three and six month periods, by 13.0% and 12.6%, respectively. The growth was generated through revenue from acquisitions and developments and increased same store revenue.

Killam's total property expenses increased 7.8% and 8.0% for the three and six months ended June 30, 2015, compared to 2014, as a result of expenses associated with newly acquired properties and completed developments. Despite the increase in property expenses, the operating margin for the quarter and year-to-date increased 210 bps and 200 bps, respectively, as a result of higher margins on recently completed developments that had not yet been stabilized in the first six months of 2014 and higher margins on newly acquired assets outside of Atlantic Canada.

Same store property NOI reflects 190 stabilized properties that Killam has owned for equivalent periods in 2015 and 2014. The same store analysis includes a combined total of 17,046 apartment units and MHC sites, or 91% of Killam's portfolio. Same store properties realized net revenue growth of 2.3% and 2.4% for the three and six months ended June 30, 2015. Savings were realized in utility and fuel expenses, resulting in a (0.1%) and (0.2%) decline in total operating expenses for the comparable three and six month periods. Combining both strong net revenue growth and savings in property expenses for the three and six months ended June 30, 2015, same store NOI grew by 4.0% and 4.4%, respectively. These variances are discussed in more detail in the Apartment and MHC sections of the MD&A.

Non-same store property NOI consists of properties acquired in 2014 and 2015, development projects completed in 2014 and 2015, other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items. Details of properties acquired in 2015 are found on page 24.

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

Apartment Results

For the three months ended June 30,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$36,736**	$32,844	11.8%	**$31,822**	$31,177	2.1%	**$4,914**	$1,667	194.8%
Property expenses									
Operating expenses	**(5,603)**	(5,279)	6.1%	**(5,092)**	(5,006)	1.7%	**(511)**	(273)	87.2%
Utility and fuel expenses	**(4,205)**	(4,249)	(1.0)%	**(3,928)**	(4,133)	(5.0)%	**(277)**	(116)	138.8%
Property taxes	**(4,582)**	(4,154)	10.3%	**(3,881)**	(3,836)	1.2%	**(701)**	(318)	120.4%
Total property expenses	**(14,390)**	(13,682)	5.2%	**(12,901)**	(12,975)	(0.6)%	**(1,489)**	(707)	110.6%
NOI	**$22,346**	$19,162	16.6%	**$18,921**	$18,202	4.0%	**$3,425**	$960	256.8%
Operating margin	**60.8%**	58.3%	250 bps	**59.5%**	58.4%	110 bps	**69.7%**	57.6%	1,210 bps

For the six months ended June 30,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$73,360**	$64,864	13.1%	**$63,661**	$62,277	2.2%	**$9,699**	$2,587	274.9%
Property expenses									
Operating expenses	**(11,528)**	(10,540)	9.4%	**(10,162)**	(10,070)	0.9%	**(1,366)**	(470)	190.6%
Utility and fuel expenses	**(11,303)**	(11,128)	1.6%	**(10,513)**	(10,850)	(3.1)%	**(790)**	(278)	184.2%
Property taxes	**(9,090)**	(8,192)	11.0%	**(7,749)**	(7,664)	1.1%	**(1,341)**	(528)	154.0%
Total property expenses	**(31,921)**	(29,860)	6.9%	**(28,424)**	(28,584)	(0.6)%	**(3,497)**	(1,276)	174.1%
NOI	**$41,439**	$35,004	18.4%	**$35,237**	$33,693	4.6%	**$6,202**	$1,311	373.1%
Operating margin	**56.5%**	54.0%	250 bps	**55.4%**	54.1%	130 bps	**63.9%**	50.7%	1,320 bps

Apartment Occupancy[1] Analysis by Core Market

	# of Units	**Q2-2015 Occupancy**	Q2-2014 Occupancy	Change Q2 Occ. (bps)	**YTD-2015 Occupancy**	YTD-2014 Occupancy	Change YTD Occ. (bps)
Halifax, NS	5,056	**95.2%**	94.2%	100 bps	**95.2%**	94.0%	120 bps
Moncton, NB	1,629	**96.0%**	94.1%	190 bps	**95.0%**	93.0%	200 bps
Fredericton, NB	1,394	**93.3%**	95.0%	(170) bps	**93.8%**	94.0%	(20) bps
Saint John, NB	1,202	**93.6%**	95.4%	(180) bps	**93.5%**	94.0%	(50) bps
St. John's, NL	915	**96.5%**	95.9%	60 bps	**96.8%**	95.0%	180 bps
Charlottetown, PE	906	**97.6%**	96.0%	160 bps	**97.3%**	95.0%	230 bps
Ontario	1,769	**96.6%**	96.5%	10 bps	**97.1%**	97.0%	10 bps
Alberta	307	**94.9%**	N/A	N/A	**96.5%**	N/A	N/A
Other Atlantic	469	**97.6%**	94.5%	310 bps	**97.8%**	94.0%	380 bps
Total Apartments (weighted average)	**13,647**	**95.5%**	94.9%	60 bps	**95.5%**	94.8%	70 bps

(1) Includes all stabilized properties.

Killam's stabilized apartment units were 95.5% occupied during Q2-2015, a 60 bps improvement from Q2-2014, and consistent with occupancy levels achieved during Q1-2015.

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

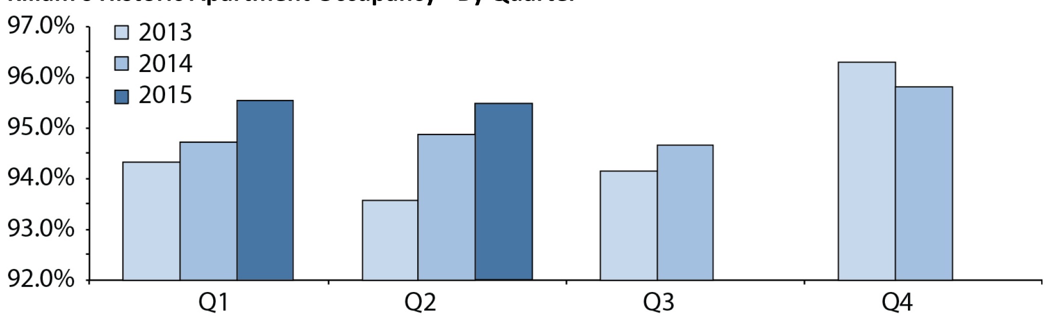
Average Rent Analysis by Core Market

As at June 30,

		Average Rent			Same Store Average Rent		
	# of Units	**2015**	2014	% Change	**2015**	2014	% Change
Halifax, NS	5,056	**$952**	$939	1.4%	**$925**	$912	1.4%
Moncton, NB	1,629	**$829**	$832	(0.4)%	**$819**	$820	(0.1)%
Fredericton, NB	1,394	**$896**	$897	(0.1)%	**$855**	$855	-%
Saint John, NB	1,202	**$776**	$742	4.6%	**$753**	$742	1.5%
St. John's, NL	915	**$940**	$866	8.5%	**$887**	$866	2.4%
Charlottetown, PE	906	**$891**	$879	1.4%	**$891**	$879	1.4%
Ontario	1,769	**$1,288**	$1,206	6.8%	**$1,159**	$1,143	1.4%
Alberta	307	**$1,391**	-	N/A	**$1,391**	-	N/A
Other Atlantic	469	**$822**	$805	2.1%	**$822**	$805	2.1%
Total Apartments (weighted average)	**13,647**	**$960**	$921	4.2%	**$895**	$885	1.1%

As shown in the above table, the weighted average monthly rent for Killam's apartment portfolio was $960 at June 30, 2015, up 4.2% from $921 at June 30, 2014. This increase includes the impact of higher rental rates associated with developments and acquisitions. Killam's same store apartment portfolio realized a 1.1% increase in average rents from June 30, 2014.

Killam's Historic Apartment Occupancy - By Quarter



Apartment Revenue

Total apartment revenue for the three and six months ended June 30, 2015, was $36.7 million and $73.4 million, an 11.8% and 13.1% increase over the same periods of 2014. This growth was attributable to acquisitions and completed developments, growth in rental rates, decrease in rental incentives and increased occupancy.

Same store apartment property revenue increased 2.1% and 2.2% for the three and six months ended June 30, 2015, due to a 1.1% increase in rental rates and a 60 bps and 70 bps improvement in occupancy for the quarter and year-to-date. Also contributing to the strong revenue growth was a 50 bps decline in rental incentives as a percentage of residential rent, to 0.8% for the first six months of 2015, compared to 1.3% for the first six months of 2014.

Based on current rents, an annualized 100 bps change in the apartment vacancy rate would impact the annualized rental revenue by $1.5 million.

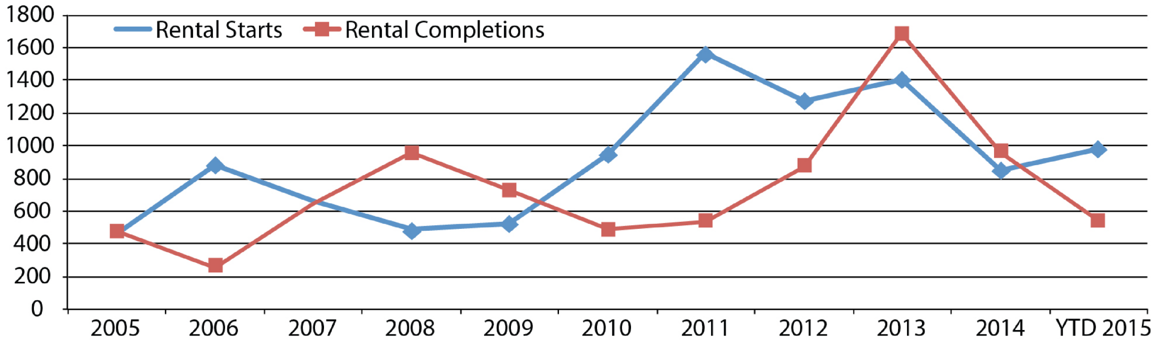
Apartment Revenue by Region

Halifax is Killam's largest rental market, representing 40% of apartment NOI during Q2-2015 and year-to-date. The Halifax apartment portfolio achieved 95.2% occupancy during Q2-2015, a 100 bps improvement from Q2-2014, and consistent with occupancy in Q1-2015. Average rents for the Halifax same store portfolio were up 1.4% from June 2014. Overall, the Halifax same store apartment portfolio achieved 1.7% revenue growth in the quarter and 1.9% revenue growth year-to-date.

The improved occupancy levels and rental growth in Halifax are attributable to population growth in the city and the baby boomer demographic beginning to shift away from home ownership into apartment living. These drivers of demand are absorbing new rental supply in the city.

The Halifax rental market has become more competitive over the last three years due to an increased number of new rental units being introduced into the city. The graph below shows the annual rental apartment starts and completions in Halifax from 2005 – 2015 (January – June):

Halifax Rental Apartment Starts and Completions



From 1999 to 2010, new rental apartments completed in Halifax averaged approximately 650 units per year (on a base of approximately 40,000 units). As shown above, starts were well above the previous average from 2011-2013, however, they dropped back down below 900 units in 2014. 2015 is proving to be another strong year for apartment developments in the city, with CMHC reporting 976 rental apartment starts in the first half of the year.

It typically takes approximately two years for new starts to be completed. The peak year for apartment starts was 2011 when 1,565 were started and delivered primarily in 2013, as shown as the peak year of rental completions in the graph above. Management expects that 2015 completions will be similar to 2014. Despite the increased rental inventory, units are being absorbed by strong demand in the city.

The increase in new developments has been fuelled by low interest rates, increasing demand for apartments from an aging and growing population base, and growth expected from large industrial projects. The Irving Shipbuilding contract is the largest project expected to contribute to economic and population growth in Halifax. The Shipyard is currently recruiting employees and expects to begin cutting steel in September 2015. Halifax's demographics include large groups of empty nesters and seniors who are beginning to transition from home ownership into apartment-style living. The majority of the new supply introduced into the market in recent years caters to this demographic, with spacious units of 1,200 square feet or more, and monthly rents of $1,300 and higher.

Killam's three core markets in NB represented 24% of the Company's apartment NOI in Q2-2015, and as a group achieved 1.5% revenue growth during Q2-2015, and 1.7% revenue growth during the first half of the year. Moncton achieved 1.9% growth in the quarter, the strongest revenue growth of the NB cities, primarily attributable to a 190 bps occupancy improvement in the quarter. Despite lower occupancy levels in Fredericton and Saint John in the quarter (down 170 and 180 bps), revenue growth was achieved in both cities due to a reduction in rental incentives. Vacancy levels have risen in New Brunswick in recent years due to high levels of new construction. Year-to-date the province has seen a reduction in the levels of new rental product being introduced into the market; CMHC reports that between January and June 2015 only 83 new rental apartment units were completed, compared to 295 and 246 units during the same period in 2014 and 2013. Starts are also down year-to-date in 2015 compared to recent years. Overall, Killam's three NB markets are stable, with modest revenue growth expected through occupancy improvements, reduced rental incentives and modest rental rate growth.

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

Killam's St. John's portfolio achieved a 60 bps improvement in occupancy in Q2-2015 compared to Q2-2014, as well as a 2.4% increase in rental rates from its same store portfolio. Same store revenue for the St. John's portfolio increased by 3.2% in Q2, and 3.7% during the first half of the year. The St. John's portfolio experienced a decrease in occupancy during the first half of 2014 due partially to the opening of a new 500-bed residence at Memorial University. This portfolio has been a top performer since 2008 due to the positive spin-offs associated with offshore energy investment. Killam to-date has not seen a significant change in rental demand in response to lower oil prices but does anticipate more moderate rental growth going forward than the levels experienced over the last five years.

The Company's Charlottetown portfolio experienced growth in Q2-2015, with a 160 bps increase in occupancy and rental rates up 1.4%. Overall same store revenue was up 3.1% quarter-over-quarter and 2.8% year-to-date. An increase in international immigration has contributed to stronger demand for rental units in Charlottetown. PEI is the only province in Atlantic Canada with rent control for apartments. The allowable rental increase is 1.75% in 2015, compared to 2.0% in 2014.

Killam's small portfolio of assets held outside its core markets in Atlantic Canada experienced a 310 bps occupancy improvement during Q2-2015, primarily attributable to the Company's Sydney, NS, properties that have been operating at near-full occupancy throughout 2015.

Killam's apartment portfolio outside Atlantic Canada represented 19% of apartment NOI in Q2-2015. Occupancy in Killam's Ontario portfolio recorded a modest gain, at 96.6% during Q2-2015 compared to 96.5% during Q2-2014. Quarter-over-quarter Killam's Ontario same store apartment portfolio revenue was up 2.2%. Year-to-date the portfolio experienced a 2.0% increase in rental revenue.

Killam expanded its apartment portfolio into Alberta in December 2014 by buying a 50% interest in Grid 5 Apartments, a 307-unit property in Calgary. This building was 94.9% occupied during Q2-2015, down from 98.1% during Q1-2015. The decrease in occupancy is attributable to the softening of the Alberta economy. New leases are currently offsetting move-outs and Management expects to stabilize occupancy at approximately 95% for the second half of the year.

Apartment Expenses

Total apartment expenses for the three and six months ended June 30, 2015, were $14.4 million and $31.9 million, a 5.2% and 6.9% increase over the same periods of 2014. The expense increase in both periods is attributable to acquisitions and completed developments. Despite the costs associated with the addition of new properties, the Company saw a 1.0% decrease and a modest 1.6% increase in utility and fuel expenses for the three and six month period as a result of lower natural gas and oil prices. Overall, Killam realized a 250 bps improvement in its apartment operating margin for the quarter and year-to-date as a result of moderating fuel costs and the development and acquisition of newer and more efficient buildings.

Total same store property expense for the three and six months ended June 30, 2015, was $12.9 million and $28.4 million, a 0.6% decrease over the same periods ended June 30, 2014. The ability to maintain total property operating costs during the quarter and year-to-date was due in part to lower oil and natural gas costs, as well as modest growth in operating and property tax costs.

Operating expenses increased by 1.7% quarter-over-quarter and 0.9% year-to-date. Increased snow clearing and removal costs in the quarter were offset by reduced landscaping costs, operational efficiencies and timing of repair and maintenance costs.

Utility and Fuel Expense - Same Store

	Three months ended June 30,			**Six months ended June 30,**		
	2015	2014	% Change	**2015**	2014	% Change
Natural gas	**$1,049**	$1,192	(12.0)%	**$3,850**	$4,024	(4.3)%
Electricity	**1,435**	1,464	(2.0)%	**3,561**	3,600	(1.1)%
Water	**1,140**	1,119	1.9%	**2,242**	2,139	4.8%
Oil	**295**	343	(14.0)%	**841**	1,064	(21.0)%
Other	**9**	15	(40.0)%	**19**	23	(17.4)%
Total utility and fuel expenses	**$3,928**	$4,133	(5.0)%	**$10,513**	$10,850	(3.1)%

Utility and fuel costs are a significant operating expense for Killam, representing approximately 30% of total property expenses during the second quarter and 37% year-to-date. Killam's apartment properties are heated with a combination of natural gas (56%), electricity (35%), oil (8%) and other (1%). Electricity costs at the unit level are typically paid directly by tenants, reducing Killam's exposure to the majority of the 4,600 units heated with electricity. Killam is primarily exposed to the electricity costs associated with common areas. Fuel costs for natural gas or oil-fired heating plants are paid by Killam.

Electricity was Killam's largest expense relating to utility and fuel costs during Q2-2015. Electricity costs include common area lighting and heating costs and the electricity charges for certain electrically heated buildings that include heat as part of the rental agreement. The decrease in electricity expense experienced during Q2 relates primarily to a decline in the number of units with heat included as part of their rental agreement. This rental incentive had been used more frequently in the NB markets over the last two years, but with improved rental demand in these markets, the use of this rental incentive has been reduced. Increased efficiencies from energy-saving initiatives such as toilet and lighting retrofits implemented in the past year are also contributing to quarter-over-quarter energy savings.

Water expense for same store properties increased by 1.9% in the quarter. Investments in water efficiency solutions offset the majority of the impact of rate increases in Halifax (8% over last year). Killam has installed water saving fixtures in over 600 apartment units over the last year and is experiencing significant water consumption reductions from the investment. The estimated payback from water related initiatives expected to be less than 3 years. Additional water savings initiatives are planned for the second half of 2015, which are also expected to achieve a payback of less than 3 years.

Heating oil expense decreased by 14.0% from Q2-2014 due to lower world oil prices. The Company expects to save an additional $0.1 million in oil costs in the second half of 2015 assuming world oil prices remain at their current levels.

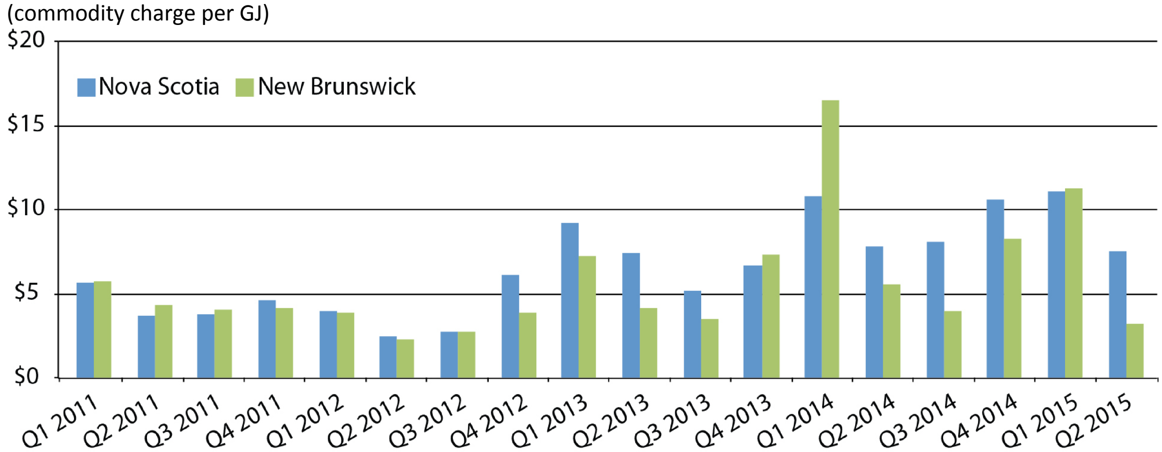
Natural gas costs, although Killam's largest energy expense during the first quarter and the first half of the year, is not as significant during the second quarter. Killam realized a 12.0% reduction in natural gas costs during Q2, benefiting from lower rates and energy efficiency investments.

The cost of natural gas in Nova Scotia and New Brunswick has been volatile during the last three years due to pipeline capacity constraints and increased natural gas demand in New England driving up pricing at the Algonquin Citygate natural gas hub during periods of cold weather. The following chart highlights Killam's historic commodity costs for natural gas for both Nova Scotia and New Brunswick. The difference in quarterly costs between the two provinces is due to the pricing structure, and the amount of forward fixing, by the two different natural gas distributors. As the graph highlights, natural gas costs in New Brunswick were down dramatically from Q1-2015 to Q2-2015 as warmer weather reduced demand pressures and commodity pricing.

Management expects natural gas pricing in Atlantic Canada (and New England) to remain volatile during the winter months until approximately 2018, when long-term solutions to the pipeline capacity issue are expected to be completed, as discussed in the Outlook section on page 7.

Cost of Natural Gas in Nova Scotia and New Brunswick

(commodity charge per GJ)



Same store property taxes realized modest growth of 1.2% in Q2 and 1.1% for the first six months of 2015 as a result of successful tax appeals offsetting increases in annual property tax assessments.

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

Apartment Same Store NOI by City

For the three months ended June 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Halifax	**$13,169**	$12,953	1.7%	**$(5,085)**	$(5,077)	0.2%	**$8,084**	$7,876	2.6%
Moncton	**3,815**	3,743	1.9%	**(1,840)**	(1,834)	0.3%	**1,975**	1,909	3.5%
Fredericton	**3,215**	3,172	1.4%	**(1,374)**	(1,455)	(5.6)%	**1,841**	1,717	7.2%
Ontario	**3,410**	3,338	2.2%	**(1,217)**	(1,220)	(0.2)%	**2,193**	2,118	3.5%
St. John's	**2,135**	2,069	3.2%	**(633)**	(612)	3.4%	**1,502**	1,457	3.1%
Saint John	**2,496**	2,470	1.1%	**(1,355)**	(1,359)	(0.3)%	**1,141**	1,111	2.7%
Charlottetown	**2,363**	2,292	3.1%	**(938)**	(948)	(1.1)%	**1,425**	1,344	6.0%
Other Atlantic locations	**1,219**	1,140	6.9%	**(459)**	(470)	(2.3)%	**760**	670	13.4%
	$31,822	$31,177	2.1%	**$(12,901)**	$(12,975)	(0.6)%	**$18,921**	$18,202	4.0%

For the six months ended June 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Halifax	**$26,390**	$25,900	1.9%	**$(11,246)**	$(11,044)	1.8%	**$15,144**	$14,856	1.9%
Moncton	**7,586**	7,444	1.9%	**(3,951)**	(3,923)	0.7%	**3,635**	3,521	3.2%
Fredericton	**6,477**	6,340	2.2%	**(3,107)**	(3,178)	(2.2)%	**3,370**	3,162	6.6%
Ontario	**6,827**	6,692	2.0%	**(2,637)**	(2,645)	(0.3)%	**4,190**	4,047	3.5%
St. John's	**4,276**	4,124	3.7%	**(1,343)**	(1,340)	0.2%	**2,933**	2,784	5.4%
Saint John	**4,967**	4,919	1.0%	**(3,039)**	(3,268)	(7.0)%	**1,928**	1,651	16.8%
Charlottetown	**4,707**	4,578	2.8%	**(2,045)**	(2,141)	(4.5)%	**2,662**	2,437	9.2%
Other Atlantic locations	**2,431**	2,280	6.6%	**(1,056)**	(1,045)	1.1%	**1,375**	1,235	11.3%
	$63,661	$62,277	2.2%	**$(28,424)**	$(28,584)	(0.6)%	**$35,237**	$33,693	4.6%

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

MHC Results

For the three months ended June 30,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$3,682**	$3,531	4.3%	**$3,682**	$3,531	4.3%	**$-**	$-	-%
Property expenses									
Operating expenses	**(847)**	(837)	1.2%	**(865)**	(837)	3.3%	**18**	-	N/A
Utility and fuel expenses	**(349)**	(337)	3.6%	**(349)**	(337)	3.6%	**-**	-	-%
Property taxes	**(151)**	(134)	12.7%	**(151)**	(134)	12.7%	**-**	-	-%
Total property expenses	**(1,347)**	(1,308)	3.0%	**(1,365)**	(1,308)	4.4%	**18**	-	N/A
NOI	**$2,335**	$2,223	5.0%	**$2,317**	$2,223	4.2%	**$18**	$-	N/A
Operating margin	**63.4%**	63.0%	40 bps	**62.9%**	63.0%	(10) bps	**N/A**	N/A	N/A

For the six months ended June 30,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$6,463**	$6,428	0.5%	**$6,463**	$6,234	3.7%	**$-**	$194	(100.0)%
Property expenses									
Operating expenses	**(1,598)**	(1,539)	3.8%	**(1,598)**	(1,539)	3.8%	**-**	-	-%
Utility and fuel expenses	**(691)**	(664)	4.1%	**(691)**	(664)	4.1%	**-**	-	-%
Property taxes	**(306)**	(284)	7.7%	**(306)**	(284)	7.7%	**-**	-	-%
Total property expenses	**(2,595)**	(2,487)	4.3%	**(2,595)**	(2,487)	4.3%	**-**	-	N/A
NOI	**$3,868**	$3,941	(1.9)%	**$3,868**	$3,747	3.2%	**$**	$194	(100.0)%
Operating margin	**59.8%**	61.3%	(150) bps	**59.8%**	60.1%	(30) bps	**-%**	100.0%	N/A

Killam's MHC business accounted for 8% of NOI from property operations during the six months ended June 30, 2015, compared to 10% for the same period in 2014. MHC same store property revenue increased 4.3% in Q2-2015 and 3.7% year-to-date. Occupancy remains strong for the Company's MHC business, with 97.5% occupancy for both the quarter and year-to-date, which is in line with the 97.7% realized for the three and six months ended June 30, 2014. The year-to-date non-same store revenue relates to income generated from the sale of land in NS in Q1-2014.

Same store revenue growth, partially offset by increased operating expenses, generated MHC same store NOI growth of 4.2% and 3.2% for the three and six months ended June 30, 2015. Specifically, same store MHC property revenue increased 4.3% and 3.7% for the three and six months ended June 30, 2015, compared to the same periods in 2014. This was a result of a 3.4% increase in weighted average rent per site to $230, up from $222 in 2014. Total same store property expenses increased 4.4% and 4.3% for the three and six months ended June 30, 2015, due to higher water and utility costs, additional snow plowing and hauling costs, along with increases in property taxes.

Killam's seasonal MHCs contribute to the MHC's NOI during the second and third quarters of the year. Increased focus on seasonal campsite rentals and other complement revenue streams have achieved revenue and NOI growth in the seasonal parks of 8.5% for Q2-2015 and 21.5% year-to-date 2015.

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

PART IV

Other Income

Equity Income

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
	$-	$166	(100.0)%	**$-**	$334	(100.0)%

Equity income for the three and six months ended June 30, 2014, represented Killam's 25% interest in the net income of a joint venture that owned three apartments, all located in Ontario. The joint venture was dissolved on December 9, 2014, and Killam purchased the remaining ownership of the assets. Killam subsequently sold 50% of its ownership in two of the properties.

Home Sales

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
	$6	$26	(76.9)%	**$10**	$36	(72.2)%

Killam completed two home sales and two home placements during the second quarter of 2015, compared to four home sales in Q2-2014. Year-to-date, Killam has completed three home sales and two home placements compared to eight home sales in the first six months of 2014. Since the sale of parts of the MHC portfolio in May 2012 and November 2013, the opportunity for home sales has decreased and is no longer a strategic priority for the Company. The Company projects an additional 10-12 home sales for 2015, which will include a mix of newly developed sites and sales on vacant lots throughout the MHC portfolio.

Corporate Income

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
	$343	$205	67.3%	**$717**	$383	87.2%

Corporate income includes property management fees, interest on bank account balances, and interest on loans receivable. The increase for the comparative three and six month periods relates to additional property management fees as a result of managing five properties in 2015 compared to four properties in 2014. The Company also earned interest revenue on a $4.0 million mezzanine loan that was issued late May 2014, bearing annualized interest at prime plus 7.0% or a minimum of 10.0%, as well as a $0.95 million vendor take-back ("VTB") loan issued in June 2015 bearing an annualized interest rate of 6.5%.

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

Fair Value (Loss) Gain

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
Apartments	**$(556)**	$7,994	(107.0)%	**$ 237**	$7,994	(97.0)%
MHCs	**(57)**	206	(127.7)%	**(57)**	206	(127.7)%
	$(613)	$8,200	(107.5)%	**$ 180**	$8,200	(97.8)%

Killam recorded a $0.6 million fair value loss in Q2-2015, offset by a $0.8 million fair value gain recorded on a development property in Q1-2015. During Q2-2015, the development property was completed and transferred to investment properties, resulting in a year-to-date net fair value gain of $0.2 million.

The effective weighted average cap-rate used to value the apartment properties decreased 17 bps to 5.61% from the same period in 2014, as well as the effective weighted average cap-rate used to value the MHC properties decreased 16 bps to 6.65% from June 30, 2014. The cap-rate compression for both apartment and MHC portfolios has resulted in fair value gain realized over the past 12 months.

See further discussion on cap-rates in the “Investment Properties” section of the MD&A.

Other Expenses

Financing Costs

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
Mortgage, loan and construction loan interest	**$7,983**	$7,346	8.7%	**$ 15,923**	$14,566	9.3%
Amortization of fair value adjustments on assumed debt	**(154)**	(124)	24.2%	**(276)**	(251)	10.0%
Amortization of loss on interest rate hedge	**11**	-	N/A	**21**	-	N/A
Convertible debenture interest	**1,704**	1,685	1.1%	**3,416**	3,368	1.4%
Capitalized interest	**(335)**	(227)	47.6%	**(762)**	(393)	93.9%
	$9,209	$8,680	6.1%	**$ 18,322**	$17,290	6.0%

Financing costs increased $0.5 million and $1.0 million or 6.1% and 6.0%, for the three and six month periods due primarily to new debt placements on acquired properties. Killam's acquisitions in the last twelve months totaled $152.1 million and debt associated with these acquisitions totaled $107.3 million. This increase in financing costs is offset by refinancings at lower interest rates, as well as increased capitalized interest. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

Mortgage and loan interest expense related to Killam's same store properties was $6.2 million in Q2-2015, down from $6.6 million in Q2-2014. Year-to-date mortgage and loan interest expense on same store properties was $12.5 million compared to $13.3 million in 2014. As a percentage of property revenue, same store mortgage and loan interest expense was lower quarter-over-quarter and year-to-date, at 17.4% and 17.8%, compared to 19.1% and 19.3% in 2014.

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates, and may at times enter into forward interest rate hedges. An annualized 100 bps change in the interest rate on Killam’s 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. The Company’s credit facilities are discussed on page 30 of the MD&A.

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

Depreciation Expense

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
	$190	$153	24.2%	**$370**	$298	24.2%

Depreciation expense relates to the Company's head office building, vehicles, heavy equipment and administrative office furniture, fixtures and computer software equipment. Although the vehicles and equipment are used at various properties, they are not considered part of investment properties and are depreciated for accounting purposes. The increase for the three and six month periods was a result of depreciation related to vehicles, computer software and leasehold improvements.

Amortization of Deferred Financing Costs

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
	$466	$419	11.2%	**$929**	$831	11.8%

Deferred financing amortization increased 11.2% and 11.8%, respectively, for the three and six months ended June 30, 2015. These increases are a result of fees related to refinancings, new debt placed on acquired properties and completed developments over the last twelve months. Deferred financing costs include mortgage assumption fees, application fees and legal costs related to financings, and these costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. The costs associated with the convertible debentures are amortized over the terms of the debentures.

Administration Expenses

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
	$2,727	$2,285	19.3%	**$4,882**	$4,048	20.6%
As a percentage of total revenues	**6.1%**	6.0%		**5.8%**	5.5%	

Administration expenses include expenses which are not specific to an individual property. These expenses include 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. The calculation of administration expenses as a percentage of total revenues has been normalized for the tax planning costs of $0.2 million and $0.1 million incurred for the three and six months ended June 30, 2015, and 2014, as these are non-recurring expenses. Administrative expenses as a percentage of revenues increased for the three and six month periods ended June 30, 2015, relating primarily to increased staffing for marketing positions and other compensation.

Management targets annualized administrative costs at approximately 6.0% of total revenues.

Deferred Tax Expense

The Company has booked future income tax expense for the three and six months ended June 30, 2015, and 2014. Killam is not currently cash taxable and does not expect to pay significant cash taxes in the near future as the Company has the ability to claim CCA deductions to reduce taxable income. Based on the assumption that the Company does not add to its asset base, Management estimates that it would become cash taxable in two to four years.

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

PART V

Funds from Operations

FFO is recognized as an industry-wide standard measure for real estate entities' operating performance, and Management considers FFO per share to be a key measure of operating performance. The calculation of FFO includes adjustments specific to the real estate industry applied against net income to calculate a supplementary measure of performance that can be compared with other real estate companies and real estate investment trusts. 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. FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other public companies. Killam calculates FFO in accordance with the REALpac definition with the exception of the add back of REIT tax planning costs as REALpac does not address this specific type of adjustment. FFO for the three and six months ended June 30, 2015, and 2014, is determined as follows:

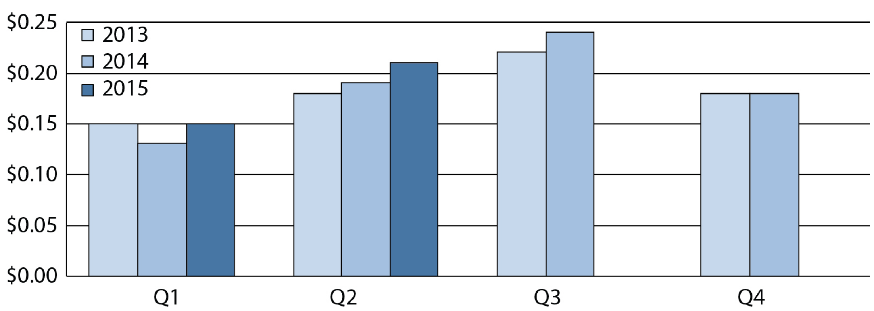
	Three months ended June 30,			**Six months ended June 30,**		
	2015	2014	% Change	**2015**	2014	% Change
Net income	**$8,942**	$14,700	(39.2)%	**$16,110**	$19,755	(18.5)%
Fair value loss (gain)	**613**	(8,200)	(107.5)%	**(180)**	(8,200)	N/A
Non-controlling interest (before fair value gain)	**(264)**	(259)	1.9%	**(509)**	(517)	(1.5)%
Deferred tax expense	**3,215**	4,128	(22.1)%	**5,962**	6,213	(4.0)%
Current tax recovery	**-**	(327)	(100.0)%	**-**	(327)	(100.0)%
Depreciation on owner-occupied building	**46**	42	9.5%	**92**	90	2.2%
Loss (gain) on disposition	**183**	-	N/A	**183**	(94)	(294.7)%
Tax planning costs	**177**	89	98.9%	**177**	89	98.9%
FFO	**$12,912**	$10,173	26.9%	**$21,835**	$17,009	28.4%
FFO/share - diluted	**$0.21**	$0.18	16.7%	**$0.35**	$0.31	12.9%
Weighted average number of shares - diluted (1)	**62,360**	55,020	13.3%	**61,909**	54,958	12.6%

(1) The calculation of weighted average shares outstanding for diluted FFO purposes excludes the convertible debentures for the three and six month periods ended June 30, 2015, and 2014 as they are anti-dilutive. For FFO purposes, the price used to calculate the conversion feature of the convertible debentures is the conversion price of $13.40 for the 5.65% convertible debentures and $14.60 for the 5.45% convertible debentures.

Killam earned FFO of $12.9 million, or $0.21 per share during Q2-2015 compared to $10.2 million or $0.18 per share during Q2-2014. The increase in FFO per share is attributable to contributions from acquisitions and completed and stabilized developments ($1.7 million), same store NOI growth of 4.0% ($1.0 million), same store interest expense savings ($0.4 million) and an increase in corporate income ($0.1 million) offset by higher administration expenses and amortization ($0.5 million). Year-to-date Killam earned FFO of $21.8 million, a 28.4% increase from $17.0 million in the same period in 2014. The increase is attributable to the same factors as noted in relation to the second quarter.

FFO has been adjusted for tax planning costs incurred in 2015 and 2014. As a corporation, Killam has engaged a third-party to help evaluate the Company's tax planning options to ensure the most efficient tax structure for shareholders in the long-term. These costs are non-recurring and unique to Killam's current corporate structure and therefore have been removed for FFO purposes.

FFO per Share ($)



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

Adjusted Funds from Operations

AFFO is a supplemental measure used by real estate analysts and some investors to represent FFO after taking into consideration the capital spend related to maintaining the earning capacity of a portfolio versus NOI enhancing capital investments. AFFO is a non-IFRS measure and 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 will lead to higher rents or more efficient operations.

In order to provide investors with information to assist in assessing the Company's payout ratio, Management has calculated AFFO using the industry standard of $450 per apartment unit. The MHC industry does not have a standard amount for "maintenance" related capital expenditures. Management has assumed $100 per MHC site as a reasonable estimate of non-NOI enhancing capital expenditures per MHC site. The weighted average number of rental units owned during the year was used to determine the capital adjustment applied to FFO to calculate AFFO.

	Three months ended June 30,			**Six months ended June 30,**		
	2015	2014	% Change	**2015**	2014	% Change
FFO	**$12,912**	$10,173	26.9%	**$21,835**	$17,009	28.4%
Maintenance Capital Expenditures						
Apartments	**(1,453)**	(1,393)	4.3%	**(2,906)**	(2,646)	9.8%
MHCs	**(129)**	(129)	-%	**(258)**	(286)	(9.8)%
AFFO	**$11,330**	$8,651	31.0%	**$18,671**	$14,077	32.6%
AFFO/ share - diluted(1)	**$0.18**	$0.16	12.5%	**$0.30**	$0.26	15.4%
AFFO payout ratio - diluted(2)	**83%**	95%	(12.6)%	**100%**	115%	(13.0)%
AFFO payout ratio - rolling 12 months	**91%**	99%	(8.1)%	**91%**	99%	(8.1)%

(1) The calculation of weighted average shares outstanding for diluted AFFO purpose excludes the convertible debentures as they are anti-dilutive. For AFFO purposes, the price used to calculate the conversion feature of the convertible debentures is the conversion price of $13.40 for the 5.65% convertible debentures and $14.60 for the 5.45% convertible debentures.

(2) Based on Killam's annualized dividend of $0.60 for the 12-month period ending June 30, 2015, and $0.59 for the 12-month period ending June 30, 2014.

Management is pleased to report an improved payout ratio in 2015, as noted above. Killam's board evaluates the Company's payout ratio on a quarterly basis. The board has not set a specific AFFO payout target, but believes that a ratio below 90% is important. Future earnings growth is expected to further lower the payout ratio.

Corresponding with the seasonality of Killam's business, the first quarter typically has the lowest AFFO per share of the year due to heating costs in the winter months. The third quarter typically has the highest AFFO per share due to higher occupancy levels and lower operating costs through the warmer summer months.

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

PART VI

Investment Properties

As at,

	June 30, 2015	December 31, 2014	% Change
Investment properties	**$1,771,136**	$1,693,055	4.6%
Investment properties under construction ("IPUC")	**28,289**	40,840	(30.7)%
	$1,799,425	$1,733,895	3.8%

Continuity of Investment Properties

The following table summarizes the changes in value of Killam's investment properties for the three and six months ended June 30, 2015, and 2014.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Balance, beginning of period	**$1,726,804**	$1,475,847	**$1,693,055**	$1,451,743
Acquisition of properties	**8,553**	18,937	**30,743**	38,920
Disposition of properties	**-**	-	**-**	(40)
Transfer to IPUC	**-**	-	**(2,300)**	-
Transfer from IPUC	**26,948**	-	**36,147**	-
Capital expenditures	**8,776**	6,867	**13,311**	11,028
Fair value adjustments - Apartments	**112**	7,994	**237**	7,994
Fair value adjustments - MHCs	**(57)**	206	**(57)**	206
Balance, end of period	**$1,771,136**	$1,509,851	**$1,771,136**	$1,509,851

The key valuation assumption used to determine the fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at June 30, 2015, December 31, 2014, and June 30, 2014, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	June 30, 2015			December 31, 2014		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**4.50%**	**8.00%**	**5.61%**	4.50%	8.00%	5.63%
MHCs	**5.75%**	**8.00%**	**6.65%**	5.75%	8.00%	6.69%

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

2015 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Year Built	Units	Purchase Price(1)
Apartments					
20 Technology Drive	Saint John	17-Jun-15	2014	59	$8,300
Commercial property					
Brewery Market	Halifax	31-Mar-15	1820-1984		$22,300
Other					
The Alexander(2)	Halifax	31-Mar-15			$5,200
Total Acquisitions					**$35,800**

(1) Purchase price on acquisition does not include transaction-related costs.
(2) Purchase price represents 50% ownership interest in land for the construction of a 240 unit multi-residential property which will be known as The Alexander. The land also includes capacity for an additional 40 units.

On June 17, 2015, the Company acquired a 59-unit building located in Saint John, NB, for $8.3 million. As part of the transaction, Killam sold an interest in land held for future development in Moncton, NB, for $1.0 million. The sale of the land included a VTB mortgage for $0.95 million, at an interest rate of 6.5%, for five years.

Investment Properties Under Construction

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Balance, beginning of period	**$51,520**	$29,427	**$40,840**	$24,373
Capital expenditures	**5,319**	6,373	**10,977**	11,282
Interest capitalized	**335**	248	**762**	393
Land acquisitions	**-**	-	**10,700**	-
Land disposition	**(1,143)**	-	**(1,143)**	-
Transfer to investment properties	**(27,742)**	-	**(36,147)**	-
Transfer from investment properties	**-**	-	**2,300**	-
Balance, end of period	**$28,289**	$36,048	**$28,289**	$36,048

During Q2-2015, Killam completed its first development in Cambridge, Saginaw Gardens, adding an additional 122 units to its Ontario apartment portfolio. Saginaw Gardens was transferred out of IPUC in June 2015. The building is currently 72% leased and is expected to be fully occupied by the end of the year. The total cost of the development was $25.3 million ($210,000 per unit) resulting in an all cash yield of 6.0%. This is an estimated 100 bps premium over the yield anticipated on acquisitions of similar quality assets in that location.

Construction of the 142-unit Southport development, located in downtown Halifax is underway. Killam owns a 50% interest in the project, representing 70 rental units. Killam's cost for the development is $14.7 million ($210,000 per unit). The development is expected to be completed in the second quarter of 2016. During the second quarter of 2015, Killam funded its remaining equity contribution and has construction financing in place to fund the remainder of the project.

During Q1-2015, Killam acquired a 50% interest in vacant land for future development located in downtown Halifax. The site is approved, through a development agreement, for phase I construction of a 240-unit multi-residential property. Killam and its 50% partner expect to begin construction during the third quarter of 2015.

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

Killam will continue to assess opportunities to acquire land for future development. In addition to the projects currently under construction, Killam has the following land available for future development:

Property	Location	Development Potential (# of Units)	Status
Developments Underway			
The Alexander - Phase I(1)	Halifax, NS	240	Expect to break ground in Q3-2015
Southport - Barrington Street	Halifax, NS	70	Under construction; Q3-2016 completion
Development Opportunities - 2016			
Silver Spear(1)	Mississauga, ON	110	In design and approval process
Saginaw - Phase II	Cambridge, ON	93	In design and approval process
Future Development Opportunities - 2017 and beyond			
Spring Garden Terrace Land	Halifax, NS	98	Approved development agreement
The Alexander - Phase II(1)	Halifax, NS	50	As of right
Carlton Houses	Halifax, NS	70	Future development
Medical Arts (Spring Garden)	Halifax, NS	200	Future development
1335 Hollis Street	Halifax, NS	30	Future development
Block 4	St. John's, NL	80	As of right
Topsail Road	St. John's, NL	225	Approved development agreement
Archibald Street	Moncton, NB	40	Approved development agreement
Total Development Opportunities		**1,306**	

(1) 50% ownership

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the three and six months ended June 30, 2015, Killam invested a total of $8.9 million and $13.3 million in its portfolio, compared to $6.9 million and $11.0 million for the same periods in 2014.

	Three months ended June 30,			**Six months ended June 30,**		
	2015	2014	% Change	**2015**	2014	% Change
Apartments	**$7,836**	$6,338	23.6%	**$11,944**	$10,272	16.3%
MHCs	**576**	524	9.9%	**998**	747	33.6%
Other	**364**	5	7,180.0%	**369**	9	4,000.0%
	$8,776	$6,867	27.8%	**$13,311**	$11,028	20.7%

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

Apartments - Capital Spend

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

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
Building improvements	**$4,790**	$4,115	16.4%	**$6,202**	$5,598	10.8%
Suite renovations	**2,337**	1,835	27.4%	**4,532**	3,800	19.3%
Appliances	**204**	235	(13.2)%	**435**	516	(15.7)%
Boilers and heating equipment	**402**	46	773.9%	**559**	116	381.9%
Other	**32**	55	(41.8)%	**89**	114	(21.9)%
Equipment	**65**	50	30.0%	**118**	113	4.4%
Parking lots	**3**	-	N/A	**3**	13	(76.9)%
Land improvements	**3**	2	50.0%	**6**	2	200%
Total capital spend	**$7,836**	$6,338	23.6%	**$11,944**	$10,272	16.3%
Average number of units outstanding	**12,917**	12,891	0.2%	**12,670**	12,790	(0.9)%
Capital spend per unit	**$607**	$492	23.4%	**$943**	$803	17.4%

Annual capital investment includes a mix of maintenance capital and value enhancing upgrades. Maintenance capital varies with market conditions and relates to investments that are not expected to lead to an increase in NOI, or increased efficiency, of a building; however, it is expected to extend the life of a building. Examples of maintenance capital include roof and window repairs/replacements and are in addition to regular repairs and maintenance costs that are expensed to NOI. Value enhancing upgrades are investments in the properties that are expected to result in higher rents and/or increased efficiencies. These include unit and common area upgrades and energy investments, such as natural gas conversions.

Killam invested $607 and $943 per unit for the three and six months ended June 30, 2015, compared to $492 and $803 per unit for the three and six months ended June 30, 2014.

Of the $7.8 million capital investment made in the apartment segment in Q2-2015, approximately 70% was invested in building and other property improvements. There are currently several large projects underway in various regions, with major façade upgrades, roof replacements, common area renovations and energy efficiency investments to increase the quality of the Company's portfolio. Efficiency investments include the installation of low-flow water fixtures, smart automated building system controls in boiler rooms at 10 properties and the installation of upgraded boilers at Killam's Brentwood Apartments. In addition, the Company, in partnership with Efficiency Nova Scotia, has installed over 20,000 LED light bulbs in buildings located in Halifax. The average payback period of the efficiency investments is between 2 – 3 years.

Approximately 30% of the apartment capital investment for the quarter was in suite renovations. The increase quarter-over-quarter was due to Killam's focus on unit upgrades to maximize occupancy and rental increases, and increase yields on properties identified for repositioning.

The Company continues to reposition properties that show significant value creation opportunities by upgrading suites and generating increased NOI through higher rents. The Company has identified its 199-unit property located at 1355 Silver Spear Road, Mississauga, ON, as a property with significant potential for repositioning and rental growth. To-date Killam has completed nine unit renovations averaging $13,000 per turn including new flooring, kitchen and bathroom upgrades. These upgrades have achieved rental increases of approximately 12% and an average return on investment of 14%. The Company expects to complete an additional 10 unit upgrades during 2015.

The timing of capital spending is variable and is influenced by tenant turnover, market conditions and individual property requirements. In addition, the length of time that Killam has owned a property and the age of the property also impacts capital requirements.

Value enhancing capital improvements increase the operating effectiveness and profitability of Killam's apartment portfolio and the Company expects to invest approximately $28 - $30 million during 2015 on capital investments across its apartment portfolio.

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

MHCs - Capital Spend

A summary of the capital spend on the MHC segment is included below:

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	**2015**	2014	% Change
Water & sewer upgrades	**$164**	$175	(6.3)%	**$467**	$273	71.1%
Site expansion and land improvements	**38**	89	(57.3)%	**64**	154	(58.4)%
Other	**115**	235	(51.1)%	**167**	270	(38.1)%
Roads and paving	**250**	22	1,036.4%	**251**	47	434.0%
Equipment	**9**	3	200.0%	**49**	3	N/A
Total capital spend - MHCs	**$576**	$524	9.9%	**$998**	$747	33.6%
Average number of units outstanding	**5,165**	5,164	-%	**5,165**	5,164	-%
Capital spend per unit	**$112**	$101	10.9%	**$193**	$145	33.1%

Management expects to invest between $300 and $500 in capital per MHC site on an annual basis. As with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is value enhancing. Management estimates that $100 per unit is maintenance capital, including costs to support the existing infrastructure, and the remaining amount increases the value of the properties, with improved roadways, ability to accommodate future expansion, and community enhancements, such as the addition of playgrounds. The cost of most capital projects will be recovered through above guideline increases in the provinces with rent control, leading to increased NOI from the investment.

For the three and six months ended June 30, 2015, Killam invested $0.6 million and $1.0 million in capital expenditures compared to $0.5 million and $0.7 million in 2014. The increases relate to a water & sewer system upgrade at a seasonal park in Ontario and the completion of a paving project at an MHC property in Ontario.

As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community. Killam expects to invest $2.0 - $3.0 million during 2015 on capital improvements across the MHC portfolio.

Liquidity and Capital Resources

The Company's sources of capital are cash generated from operating activities, mortgage financings and refinancings, credit facilities, and equity and debt issuances. The Company's primary use of capital includes property acquisitions and developments, major property improvements, property maintenance, debt principal and interest payments, and payment of dividends. The Company anticipates meeting all current and future obligations with a combination of current cash and cash equivalents, cash flow generated from operations and conventional mortgage refinancings, including net cash accessible through upfinancings, and that the Company will be able to obtain financing on reasonable terms.

Killam's ability to grow through acquisitions and development will be dependent on the ability to access mortgage debt, construction financing and to raise equity in the capital markets. Killam had cash on hand of $13.8 million at June 30, 2015.

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

Mortgages and Other Loans

Below are Killam's key debt metrics:
As at,

	June 30, 2015	December 31, 2014	% Change
Weighted average years to maturity of mortgage and vendor debt (years)	**4.4**	4.4	-
Gross mortgage, loan and vendor debt as a percentage of total assets	**49.1%**	47.6%	150 bps
Total debt as a percentage of total assets	**55.3%**	54.9%	40 bps
Interest coverage ratio (rolling twelve months)	**2.25x**	2.18x	7 bps
Debt service coverage ratio (rolling twelve months)	**1.35x**	1.32x	3 bps
Weighted average interest rate of mortgage and vendor debt	**3.41%**	3.60%	(19) bps
Weighted average interest rate of total debt	**3.74%**	3.93%	(19) bps

The Company's long-term debt consists largely of fixed-rate, long-term mortgage financing. In certain cases the Company will also utilize VTB mortgages as part of an acquisition. Mortgages are secured by a first or second charge against individual properties and the vendor financing is secured by a general corporate guarantee.

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 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. The Company expects the construction loan related to Saginaw Gardens to be paid out during the third quarter of 2015.

The Company utilized a VTB mortgage as part of its acquisition of the Brewery Market on March 31, 2015. The VTB mortgage has an interest rate of 3.0% and is repayable in March 2016, which coincides with the maturity of the mortgage debt assumed as part of the acquisition.

Killam's June 30, 2015, weighted average interest rate on mortgages improved to 3.41% from 3.60% at December 31, 2014, as a result of refinancings at lower interest rates during the period. This trend is expected to continue throughout the remainder of 2015 and for 2016 with $45.9 million and $125.1 million of current mortgage balances maturing. Management expects to refinance these mortgages at lower interest rates than their current weighted average rates of 4.31% and 4.22%, respectively. These refinancings represent 18.7% of Killam's total mortgage portfolio.

Total debt as a percentage of total assets has increased 40 bps to 55.3% from December 31, 2014. Management expects its percentage of debt to total assets to not exceed 65%. This ratio 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 at June 30, 2015, would have increased the ratio of debt as a percentage of total assets by 90 bps.

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

2015 Refinancings

During the six months ended June 30, 2015, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$42,735	4.34%	$65,603	2.18%	6.6 years	$22,868
MHCs	1,360	5.37%	2,854	3.43%	5.0 years	1,494
	$44,095	4.37%	$68,457	2.23%	6.5 years	$24,362

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

	Apartments			MHCs		Total	
Year of Maturity	Balance June 30, 2015	Weighted Avg Int. Rate %	% CMHC Insured	Balance June 30, 2015	Weighted Avg Int. Rate %	Balance June 30, 2015	Weighted Avg Int. Rate %
2015	43,290	4.26	80.7	2,637	5.10	45,927 (1)	4.31
2016	121,980	4.20	47.8	3,068	5.08	125,048	4.22
2017	59,995	3.43	43.2	16,939	4.65	76,934	3.70
2018	85,981	3.68	44.0	12,591	4.34	98,572	3.77
2019	173,878	2.82	97.1	19,920	3.86	193,798	2.93
2020	124,910	2.70	63.9	2,837	3.43	127,747	2.72
2021	22,717	3.79	88.7	-	-	22,717	3.79
2022	23,436	3.16	100.0	-	-	23,436	3.16
2023	82,772	3.30	100.0	-	-	82,772	3.30
Thereafter	119,583	3.33	100.0	-	-	119,583	3.33
	$ 858,542	3.35	75.9	$ 57,992	4.29	$916,534	3.41

(1) Excludes $7.0 million related to demand loans classified as current mortgage debt on the Q2-2015 condensed consolidated interim financial statements.

As at June 30, 2015, approximately 76% of the Company's apartment mortgages were CMHC insured (71% of all mortgages as MHC properties are not eligible for CMHC insurance) (December 31, 2014 – 75% and 70%). The weighted average interest rate on the CMHC insured mortgages was 3.14% as at June 30, 2015 (December 31, 2014– 3.31%).

Access to mortgage debt is essential in financing future acquisitions and in refinancing maturing debt. Management has intentionally diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered the maturity dates of its mortgages to manage interest rate risk. Management anticipates continued access to mortgage debt for both new acquisitions and refinancings. Access to CMHC insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee on the debt and therefore are able to lend at more favourable rates.

The following table presents the NOI of properties that are available to Killam to refinance at debt maturity for the remainder of 2015 and for 2016. With $171.0 million in current mortgages maturing between now and the end of 2016, Management is evaluating opportunities to fix interest rates before maturity to lock in savings on refinancings.

2015 & 2016 Debt Refinancings

Remainder of 2015	**Number of Properties**	**NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	18	$5,588	$42,992
MHCs with debt maturing	3	648	2,602
Remainder of 2015 debt maturities	21	$6,236	$45,594
2016			
Apartments with debt maturing (1)	33	$15,619	$117,198
MHCs with debt maturing	4	537	2,380
2016 debt maturities	37	$16,156	$119,578

(1) Includes debt associated with the Brewery Market which is included in the "Other" category within investment properties in note 3 of the condensed consolidated interim financial statements.

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

Future Contractual Debt Obligations

At June 30, 2015, the timing of the Company's future contractual debt obligations are as follows:

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**

Debentures

The Company's $57.5 million convertible unsecured subordinated debentures mature November 30, 2017, bear interest at 5.65% and are convertible, at the holders' option, to common shares at a price of $13.40. The debentures are redeemable at the option of the Company after November 30, 2013, and on or before November 30, 2015, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price. After November 30, 2015, the debentures are redeemable at face value. Upon maturity or redemption, the Company may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing).

The Company's $46.0 million convertible unsecured subordinated debentures mature June 30, 2018, bear interest at 5.45% and are convertible, at the holders' option, to common shares at a price of $14.60. The debentures are redeemable at the option of the Company after June 30, 2014, and on or before June 30, 2016, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price. After June 30, 2016, the debentures are redeemable at face value. Upon maturity or redemption, the Company may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing).

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 1%. 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%).

Credit Facilities

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. At June 30, 2015, the Company had assets with a fair value of $1.9 million pledged to the line and had 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.

Shareholders' Equity

On March 31, 2015, the Company issued 1,092,548 common shares to Halkirk Properties Limited to satisfy $12.0 million of the $27.5 million purchase price for the acquisition of the Brewery Market and a 50% interest in vacant land.

For the three and six months ended June 30, 2015, 132,990 and 367,907 stock options were exercised for common shares, and cash proceeds to the Company of $1.3 million and $3.5 million. All outstanding options were exercised in Q2-2015 and as at June 30, 2015, there are no options outstanding. There were no restricted share units ("RSUs") redeemed during Q2-2015 and 20,420 RSUs redeemed year-to-date.

Killam pays a dividend of $0.05 per share per month ($0.60 per share annualized). The Company's Dividend Reinvestment Plan ("DRIP") allows shareholders to elect to have all cash dividends from the Company reinvested in additional shares. Shareholders who participate in the DRIP receive an additional dividend of shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to the ten day volume weighted average price of the Company's shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration. For the three and six months ended June 30, 2015, the Company issued 174,157 and 270,595 shares under the DRIP with a value of $1.8 million and $2.8 million (three and six months ended June 30, 2014 – 72,539 and 137,114 shares with a value of $0.7 million and $1.4 million). For the three and six months ended June 30, 2015, the average DRIP participation rate was 20% and 17% (three and six months ended June 30, 2014 - 9% and 8%).

PART VII

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 Management's Discussion and Analysis found in Killam's 2014 Annual Report and in Killam's Annual Information Form, both filed on SEDAR. These factors still exist at the end of this interim period and remain relatively unchanged.

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

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 preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions. The significant areas of judgments, estimates and assumptions are set out in Note 3 of the consolidated financial statements found in Killam's 2014 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred taxes.

Disclosure Controls and Procedures and Internal Controls

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company'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 the Company have been detected. During the most recent interim period, there have been no changes in the Company's accounting judgments, estimates and assumptions.

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.