Management's Discussion & Analysis

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

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Killam's Q2-2014 Management's Discussion and Analysis is being re-filed and replaces the Q2-2014 Management's Discussion and Analysis filed on August 6, 2014, as the section entitled "Adjusted Funds from Operations" was amended to show AFFO per share (diluted) as $0.16 from $0.15.

Management's Discussion & Analysis

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

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, 2013, and 2012. The consolidated financial statements for the years ended December 31, 2013, and 2012, 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 2013 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 6, 2014.

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, loss on disposition, depreciation on owner-occupied property and tax planning costs relating to the Company's potential REIT conversion, less fair value gains, 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 2014 and 2013 (93% of the portfolio based on the June 30, 2014 unit count).
- Capitalization Rate ("cap-rate") is the rate calculated by dividing the forecasted NOI from a property by the property's purchase price.
- Interest coverage is calculated by dividing the earnings before interest, tax, depreciation, and fair value adjustments by interest expense.
- Debt service coverage is calculated by dividing the earnings before interest, tax, depreciation, 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 Manufactured Home Community ("MHC") properties. Killam's 168 apartment properties are located in Atlantic Canada's six largest urban centres and in Ontario ("ON"). The Company's 35 MHCs are located in Ontario and Atlantic Canada. The value of Killam's real estate assets at June 30, 2014, was $1.5 billion. Killam is focused on growing its portfolio, maximizing the value of its properties and increasing FFO per share.

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 13.5% market share of the multi-family rental units in these core markets. Killam entered the Ontario apartment market in 2010, and today owns fourteen properties in the province, including assets in Toronto, Ottawa, London and Cambridge. Killam plans to expand its presence in Ontario with additional acquisitions and developments. Since 2010, Killam has complemented its acquisition program with the construction of apartment buildings, completing five projects that total 331 units to-date. Currently, the Company has two projects under construction totalling 224 units with expectations to be completed in Q4-2014 and 2015. The apartment business is Killam's largest business segment, accounting for 90% of the Company's NOI from property operations and equity income for the six months ended June 30, 2014. At June 30, 2014, Killam's apartment portfolio consisted of 12,905 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 a monthly site rent. Killam owns 35 communities which accounted for 10% of Killam's NOI for the six months ended June 30, 2014.

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 rental increases achieved.
3) Occupancy – Management is focused on maximizing occupancy levels while also managing the impact of higher rents. This measure considers units rented as a percentage of total stabilized units at a point in time.
4) Same Store NOI Growth – This measure considers the Company's ability to increase the NOI at properties that it has owned for equivalent periods quarter-over-quarter, removing the impact of acquisitions, dispositions, developments and other non same store operating adjustments.
5) Weighted Average Cost of 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 remains at a range of 55% to 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.

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, 2014 and 2013:

Results of Operations

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Change	**2014**	2013	Change
Property revenue	**$36,518**	$34,506	5.8%	**$71,583**	$67,758	5.6%
NOI	**$21,441**	$20,225	6.0%	**$39,061**	$38,394	1.7%
Income before fair value gains, gain on disposition and income taxes	**$10,301**	$10,380	(0.8)%	**$17,347**	$18,397	(5.7)%
Fair value gains	**$8,200**	$20,199	(59.4)%	**$ 8,200**	$24,490	(66.5)%
Net income applicable to common shareholders	**$13,671**	$23,238	(41.2)%	**$18,540**	$32,206	(42.4)%
Earnings per share (basic)	**$0.25**	$0.43	(41.9)%	**$0.34**	$0.60	(43.3)%
FFO	**$10,173**	$9,478	7.3%	**$17,009**	$17,290	(1.6)%
FFO per share (basic)	**$0.19**	$0.18	5.6%	**$0.31**	$0.32	(3.1)%
FFO per share (diluted)	**$0.18**	$0.17	5.9%	**$0.31**	$0.32	(3.1)%
AFFO per share	**$0.16**	$0.15	6.7%	**$0.26**	$0.27	(3.7)%
Weighted average shares outstanding (basic) (000's)	**54,752**	54,029	1.3%	**54,679**	53,874	1.5%

Same Store Results

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Change	**2014**	2013	Change
Same store revenue	**$32,276**	$31,593	2.2%	**$63,673**	$62,594	1.7%
Same store expenses	**(13,444)**	(13,011)	3.3%	**(29,186)**	(27,202)	7.3%
Same store NOI	**$18,832**	$18,582	1.3%	**$34,487**	$35,392	(2.6)%

Balance Sheet

	As at June 30, 2014	As at December 31, 2013	Change
Investment properties	**$1,545,899**	$1,476,116	4.7%
Total assets	**$1,592,708**	$1,532,431	3.9%
Total liabilities	**$982,519**	$928,371	5.8%
Total equity	**$610,189**	$604,060	1.0%

Ratios

	As at June 30, 2014	As at December 31, 2013	Change
Total debt to total assets	**53.8%**	52.9%	90 bps
Weighted average mortgage interest rate	**3.85%**	4.05%	(20) bps
Weighted average years to debt maturity	**4.4**	3.9	0.5 years
Interest coverage (rolling twelve months)	**2.03x**	2.08x	(2.4)%
Debt service coverage (rolling twelve months)	**1.31x**	1.34x	(2.2)%

Summary of Q2-2014 Results and Operations

FFO per Share Growth

Killam generated FFO per share of $0.19 during Q2-2014, up 5.6% from $0.18 during Q2-2013. The growth was attributable to positive same store property NOI growth, contributions from developments and acquisitions, and interest expense savings. These positive contributions were partially offset by a reduction in MHC earnings associated with the New Brunswick MHC sale.

Improved Occupancy Contributes to Same Store Revenue Growth

Same store properties achieved a 2.2% increase in revenue in Q2, including a 1.9% increase for the apartment portfolio and a 4.0% increase for the MHC portfolio. The improvements are attributable to increased rental rates and occupancy improvements. The strongest occupancy gains were realized in Saint John, Moncton, Charlottetown and Ontario.

Same Store NOI Growth of 1.3%

Killam achieved positive same store NOI growth of 1.3% during Q2-2014, despite high energy costs in April. More moderate gas prices in May and June, as well as flat property taxes and a 2.0% decrease in other expenses, resulted in a 3.3% increase in total property operating expenses in the quarter. Apartments achieved 0.7% same store NOI growth and MHCs achieved 6.6% NOI growth in the quarter.

Redeployment of Funds from MHC Sale Nearing Completion

During Q2-2014 Killam completed the acquisition of 300 Royale, an 83-unit new development in the Halifax market for $18.6 million. Including this acquisition, at the end of Q2-2014, Killam had redeployed approximately 70% of the $42.6 million of cash generated from the sale of its NB MHC portfolio in November 2013. The timing of replacement of earnings from the MHC sale has resulted in short-term dilution in FFO per share in Q2, and in the first half of the year.

The Company expects additional acquisitions in the second half of the year, completing the redeployment of funds from the 2013 MHC sale.

Developments Contribute Positively to FFO per Share

Positive FFO growth from developments completed in 2013 was achieved during the second quarter following improved occupancy. The lease-up of The Plaza and S2 has improved steadily, with 90% and 92% of the units leased for September 2014. Bennett House and Brighton continue to operate at full occupancy.

Interest Cost Savings

Killam continued to benefit from interest rate savings on mortgage refinancings. During Q2-2014 Killam successfully refinanced $36.5 million of maturing apartment mortgages at a weighted average interest rate of 3.11%, 110 basis points ("bps") lower than the weighted average interest rate prior to refinancing.

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

Performance Compared to 2014 Key Objectives

Consolidation of Multi-family Residential Real Estate Market and Increase Investment in New Properties	
2014 Target	Complete a minimum of $75 million in acquisitions and continue to develop two current development projects on schedule and within 5% of budget.
2014 Performance	Killam acquired four apartment properties during the first half of the year, representing 254 units, for a total of $35.1 million. In addition, Killam acquired a 4-unit property in Halifax with land for future development for $1.5 million and acquired the leasehold interest in the land under an existing Killam apartment for $1.6 million. Year-to-date, 51% of the $75 million acquisition target has been completed. Killam's two development projects underway, representing a total value of $46.7 million, both remain on budget and are scheduled to be completed within a month of their original schedules.

Geographic Diversification	
2014 Target	Killam's goal is to invest more than 50% of its 2014 acquisition program outside Atlantic Canada, with a focus on Ontario.
2014 Performance	Killam acquired two adjacent properties in Ottawa, 50 Selkirk Street, a 75-unit building, and 350 Mayfield Avenue, a 61-unit building in March 2014. The Company continues to seek opportunities to acquire multi-family residential apartments outside Atlantic Canada.

Growth in Same Store Net Operating Income	
2014 Target	Same Store NOI growth of 0% to 2%.
2014 Performance	Killam achieved positive same store NOI growth of 1.3% in Q2. Same store NOI declined by 2.6% during the first half of the year following high natural gas costs during the first quarter. With an expectation of strong NOI growth in the second half of the year, attributable to occupancy improvements and more moderate gas costs, Killam expects to achieve its adjusted same store NOI growth target of 0% for the year.

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

Outlook

Improved Same Store Revenue

Occupancy improvements in Ontario, Moncton and Saint John, are expected to help offset the Halifax rental market, where occupancy levels are expected to be similar to levels experienced in 2013. Killam continues to invest in marketing and leasing initiatives to gain market share.

Economic Projects to Fuel Growth in Atlantic Canada

Looking forward to 2015 and beyond, Management expects that major economic projects in Halifax and Atlantic Canada will lead to increased demand for rental units in its core Atlantic Canadian markets. Large economic projects, either proposed or underway in the region include:

Province	Project(1)	Commitment/ Size ($)	Term	Estimated # of Jobs	Comments
Nova Scotia	Irving Shipbuilding Contract	$25 billion	25-year contract	1,000-1,500 direct up to 11,500 indirect	Presently, Irving is investing approximately $350 million modernizing the Halifax Shipyard to begin cutting steel in 2015.
	Energy Exploration off NS Coast	$2.1 billion (British Petroleum and Shell Canada)	6 years (exploration phase)	Not available	This offshore oil activity has the potential for long-term investment and employment opportunities in the region.
	Various Halifax Construction Projects	$1-2 billion	3-4 years	Not available	Investment made in the new convention centre, two new military facilities, and new downtown library.
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	Regulatory applications are expected to be submitted during 2014. An estimated $2.8 billion GDP contribution for NB during this project.
	Saint John Mill Upgrade	$450 million	4-5 years	600 direct	Two phase upgrade began in the spring of 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	$7.8 billion	5 years	1,500 direct with peak of 3,100	Construction of the 824 megawatt hydroelectric dam is underway.
	Maritime Link	$1.5 billion	4 years	300 direct	Subsea cable designed to transport electricity from NL to NS has been approved and expected to start in 2014.
	Hebron Oil Project	$14 billion	10 years	3,000 - 3,500 direct	Construction is taking place with oil expected to flow in 2014 but development drilling to continue through 2024.

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

Natural Gas Pricing to Remain Uncertain in Near-Term

Insufficient natural gas pipeline and storage capacity in New England and Atlantic Canada, coupled with increased demand in the regions, has resulted in volatile natural gas prices over the last 18 months. 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 a proposed pipeline expansion in New England by Spectra Energy. These projects are both scheduled for completion for the 2018 heating season. Additional pipeline expansions are also being considered. These investments are expected to normalize the Atlantic Canadian gas markets over the next three to five years. In the interim, the continued strategy to forward price-fix by Killam's NS natural gas distributor should help mitigate volatility. As well, Management is analyzing the opportunity to fix a portion of its NB gas requirements for the 2015 heating season with a fixed physical contract. To date the fixed prices have been higher than Management is prepared to commit to, however, pricing has been trending down over the last month.

Management will continue to monitor the market for opportunities to fix acceptable rates for the 2015 heating season.

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Interest Expense Savings

Killam has $51.5 million of apartment debt maturing during the remainder of 2014 at a weighted average interest rate of 4.81%. Based on the current bond yield, rates could be fixed at approximately 2.5% for 5-year debt and 3.2% for 10-year debt. At current interest rates, the Company would generate annualized interest savings on mortgages refinanced during the remainder of the year of approximately $1.0 million with a balanced mixed of 5-year and 10-year mortgage terms.

Portfolio Summary

The following table summarizes Killam's apartment portfolio by market as at and for the six months ended June 30, 2014:

Apartment Properties

	Units(1)	Number of Properties	% of Apartment NOI and Equity Income
Nova Scotia			
Halifax(2)	5,056	55	44.9%
Sydney	139	2	1.1%
	5,195	57	46.0%
New Brunswick			
Moncton	1,629	31	10.5%
Fredericton	1,394	20	9.2%
Saint John	1,143	13	4.7%
Miramichi	96	1	0.7%
	4,262	65	25.1%
Ontario(3)			
Ottawa	628	8	2.7%
London	264	2	3.0%
Cambridge	225	2	3.4%
Toronto	378	2	3.4%
	1,495	14	12.5%
Newfoundland and Labrador			
St. John's	813	11	7.9%
Grand Falls	148	2	1.0%
	961	13	8.9%
Prince Edward Island			
Charlottetown	906	17	6.9%
Summerside	86	2	0.6%
	992	19	7.5%
Total	**12,905**	**168**	**100.0%**

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

(2) Killam owns a 47% interest in and manages Garden Park Apartments, a 246-unit building located in Halifax, NS. Killam's 47% ownership interest represents 116 of the 246 units related to this property.

(3) Killam owns three buildings located in Ontario through a joint venture, with Killam having a 25% ownership interest and managing the properties. Killam's 25% ownership interest represents 118 of the 472 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, 2014:

	Sites	Number of Communities	% of MHC NOI
Nova Scotia	2,626	16	58.7%
Ontario	2,145	16	36.9%
New Brunswick	224	1	1.0%
Newfoundland and Labrador	170	2	3.4%
Total	**5,165**	**35**	**100.0%**

Management's Discussion & Analysis

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

PART III

Q2-2014 Financial Overview

Consolidated Results

For the three months ended June 30,

	Total Portfolio			Same Store			Non Same Store		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Property revenue	**$36,518**	$34,506	5.8%	**$32,276**	$31,593	2.2%	**$4,242**	$2,913	45.6%
Property expenses									
Operating expenses	**(6,159)**	(6,223)	(1.0)%	**(5,489)**	(5,601)	(2.0)%	**(670)**	(622)	7.7%
Utility and fuel expenses	**(4,594)**	(4,045)	13.6%	**(4,241)**	(3,697)	14.7%	**(353)**	(348)	1.4%
Property taxes	**(4,324)**	(4,013)	7.7%	**(3,714)**	(3,713)	-%	**(610)**	(300)	103.3%
Total property expenses	**(15,077)**	(14,281)	5.6%	**(13,444)**	(13,011)	3.3%	**(1,633)**	(1,270)	28.6%
NOI	**$21,441**	$20,225	6.0%	**$18,832**	$18,582	1.3%	**$2,609**	$1,643	58.8%
Operating margin	**58.7%**	58.6%	0.2%	**58.3%**	58.8%	(0.9)%	**61.5%**	56.4%	9.0%

For the six months ended June 30,

	Total Portfolio			Same Store			Non Same Store		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Property revenue	**$71,583**	$67,758	5.6%	**$63,673**	$62,594	1.7%	**$7,910**	$5,164	53.2%
Property expenses									
Operating expenses	**(12,168)**	(11,615)	4.8%	**(10,854)**	(10,550)	2.9%	**(1,314)**	(1,065)	23.4%
Utility and fuel expenses	**(11,813)**	(9,991)	18.2%	**(10,919)**	(9,369)	16.5%	**(894)**	(622)	43.7%
Property taxes	**(8,541)**	(7,758)	10.1%	**(7,413)**	(7,283)	1.8%	**(1,128)**	(475)	137.5%
Total property expenses	**(32,522)**	(29,364)	10.8%	**(29,186)**	(27,202)	7.3%	**(3,336)**	(2,162)	54.3%
NOI	**$39,061**	$38,394	1.7%	**$34,487**	$35,392	(2.6)%	**$4,574**	$3,002	52.4%
Operating margin	**54.6%**	56.7%	(3.7)%	**54.2%**	56.5%	(4.1)%	**57.8%**	58.1%	(0.5)%

Total property revenue for the three and six months ended June 30, 2014, excluding the properties held through the Company's joint venture, was $36.5 million and $71.6 million. This translates into a 5.8% and 5.6% increase in revenue over the same periods in 2013, generated through revenue from acquisitions and developments, increased rental rates and lower vacancy, partially offset by increased rental incentives and lost revenues from dispositions.

Killam's total property expenses increased 5.6% and 10.8% for the same three and six months of 2014 compared to 2013. Although the operating margin decreased by 210 bps for the first six months of 2014 mainly due to higher utility and fuel costs, the second quarter margin improved 20 bps. Despite the Company owning a higher percentage of apartments units versus MHC sites in the first six months of 2014 than 2013, which operate with a lower gross margin, improvements in the margin are attributed to savings in property operating expenses, subsiding heating costs in the warmer months of the second quarter, as well as new acquisitions and developments in their lease-up phase that were closer to being stabilized in Q2.

Same store property NOI reflects the 183 stabilized properties that Killam has owned for equivalent periods in 2014 and 2013. The same store analysis includes 16,725 units and sites, or 93% of Killam's portfolio. Home sales are excluded from this analysis. Same store properties realized growth in the second quarter of 2014 with a 1.3% increase in NOI. This increase in NOI is a result of 2.2% increase in net revenue quarter-over-quarter, partially offset by a 3.3% increase in property operating expenses. 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 both 2013 and 2014, MHC properties sold in Q4-2013, development projects completed in 2013, other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items. Details of properties acquired in 2014 are found on page 23.

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		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Property revenue	**$32,844**	$29,472	11.4%	**$28,780**	$28,233	1.9%	**$4,064**	$1,239	228.0%
Property expenses									
Operating expenses	**(5,279)**	(5,025)	5.1%	**(4,655)**	(4,705)	(1.1)%	**(624)**	(320)	95.0%
Utility and fuel expenses	**(4,249)**	(3,564)	19.2%	**(3,905)**	(3,427)	13.9%	**(344)**	(137)	151.1%
Property taxes	**(4,154)**	(3,733)	11.3%	**(3,582)**	(3,577)	0.1%	**(572)**	(156)	266.7%
Total property expenses	**(13,682)**	(12,322)	11.0%	**(12,142)**	(11,709)	3.7%	**(1,540)**	(613)	151.2%
NOI	**$19,162**	$17,150	11.7%	**$16,638**	$16,524	0.7%	**$2,524**	$626	303.2%
Operating margin	**58.3%**	58.2%	0.2%	**57.8%**	58.5%	(1.2)%	**62.1%**	50.5%	23.0%

For the six months ended June 30,

	Total Portfolio			Same Store			Non Same Store		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Property revenue	**$64,864**	$58,278	11.3%	**$57,507**	$56,625	1.6%	**$7,357**	$1,653	345.1%
Property expenses									
Operating expenses	**(10,540)**	(9,403)	12.1%	**(9,324)**	(8,961)	4.1%	**(1,216)**	(442)	175.1%
Utility and fuel expenses	**(11,128)**	(8,960)	24.2%	**(10,258)**	(8,786)	16.8%	**(870)**	(174)	400.0%
Property taxes	**(8,192)**	(7,207)	13.7%	**(7,130)**	(7,015)	1.6%	**(1,062)**	(192)	453.1%
Total property expenses	**(29,860)**	(25,570)	16.8%	**(26,712)**	(24,762)	7.9%	**(3,148)**	(808)	289.6%
NOI	**$35,004**	$32,708	7.0%	**$30,795**	$31,863	(3.4)%	**$4,209**	$845	398.1%
Operating margin	**54.0%**	56.1%	(3.7)%	**53.6%**	56.3%	(4.8)%	**57.2%**	51.1%	11.9%

Apartment Revenue

Total apartment revenue for the three and six months ended June 30, 2014, was $32.8 million and $64.9 million, an 11.4% and 11.3% increase over the same periods of 2013. This growth was attributable to acquisitions, the completion of four development projects during 2013 and growth in rental rates.

Same store apartment net revenue increased 1.9% and 1.6% for the three and six months ended June 30, 2014, following increased rental rates of 1.3% and 1.4%. As well, Killam realized higher occupancy during the second quarter of 2014 compared to the same period of 2013, with continual improvement each month and a 130 bps improvement as of June 30, 2014.

Based on current rents, an annualized 100 bps change in the apartment vacancy rate would impact the annualized rental revenue by $1.4 million.

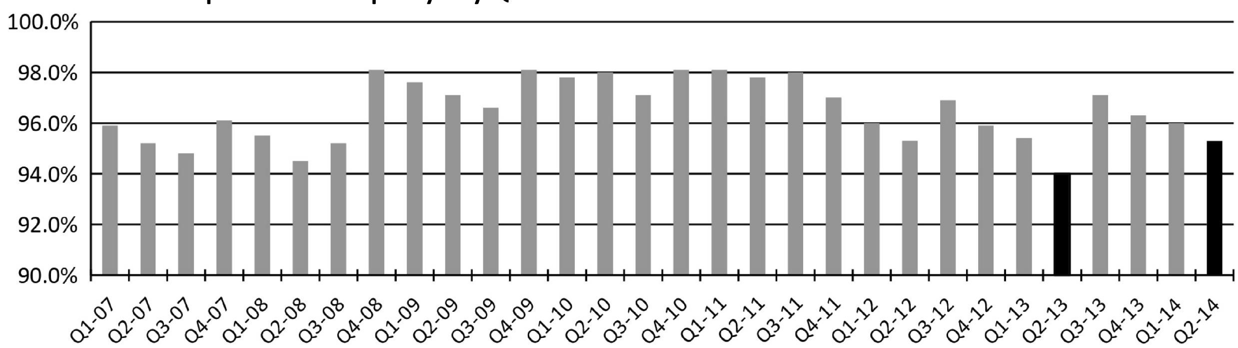
Dollar amounts in thousands of Canadian Dollars (except as noted)

Apartment Occupancy by Core Market

	As at June 30, 2014			As at June 30, 2013				
	Units	**Occupancy(1)**	**Average Rent**	Units	Occupancy(1)	Average Rent	Change Occ. (bps)	% Change Avg Rent
Halifax, NS	5,056	94.7%	$939	4,970	95.0%	$914	(30) bps	2.7%
Moncton, NB	1,629	95.9%	837	1,512	93.0%	818	290 bps	2.3%
Fredericton, NB	1,394	94.4%	897	1,394	93.3%	894	110 bps	0.3%
Saint John, NB	1,143	96.4%	742	1,143	90.3%	750	610 bps	(1.1)%
St. John's, NL	813	95.9%	866	813	96.5%	837	(60) bps	3.5%
Charlottetown, PE	906	96.5%	879	906	94.3%	882	220 bps	(0.3)%
Ontario	1,495	95.8%	1,206	1,180	93.5%	1,292	230 bps	(6.7)%
Other Atlantic	469	95.3%	805	431	96.5%	785	(120) bps	2.5%
Total Apartments (weighted average)	**12,905**	**95.3%**	**$921**	12,349	94.0%	$910	130 bps	1.2%

(1) Includes all stabilized properties.

Killam's Historic Apartment Occupancy - By Quarter



Killam's apartment units were 95.3% occupied at June 30, 2014, a 130 basis point (bp) improvement from 94.0% at June 30, 2013. This compares to 96.0% occupancy at March 31, 2014. Killam typically experiences its lowest occupancy during the summer, followed by its highest occupancy in September. In addition to higher occupancy at June 30th year-over-year, Killam achieved improved occupancy throughout the quarter, with its stabilized properties realizing 94.8% of their rental revenue potential, a 110 bps improvement from 93.7% in Q2-2013.

Halifax is Killam's largest rental market, representing 44.9% of the Company's apartment NOI and equity income. Killam's occupancy in Halifax on June 30, 2014, was 94.7%, down 30 bps from 95.0% on June 30, 2013. The Halifax rental market has become more competitive over the last 18 months with an increase in the amount of new rental units being introduced into the market. From 1999 to 2010, new apartment starts in Halifax averaged approximately 650 units per year (on a base of approximately 40,000 units). Since 2011 the number of annual starts has averaged 1,400 units, as reported by CMHC. Year-to-date for 2014, CMHC has reported a decline in apartment starts in the city (171 apartment unit starts during the first six months of 2014 compared to 883 and 363 in the first six months of 2013 and 2012, respectively), as reported in their July 2014 Halifax Housing Now report.

The increase in new developments has been fuelled by low interest rates and an expectation of increasing demand for apartments from an aging and growing population base. The $25 billion Irving Shipbuilding contract is the largest project expected to contribute to economic and population growth in the city. The 25-year contract was awarded in October 2011 and Irving Shipbuilding is currently investing $350 million to upgrade the shipyard and expects to begin cutting steel for the first round of vessels in 2015. In addition, 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 the last two years caters to this demographic.

It typically takes approximately two years for developments to be completed, with 2013 being the first year that a sizeable increase in new units has come into the market. CMHC reported that in 2013, 1,681 apartment new units were completed, representing a 4.1% increase in the amount of apartment units in the city, almost double the 876 completed in 2012. The increased product has resulted in a more competitive rental environment in Halifax. Killam has responded by focused marketing and leasing programs allowing Killam to achieve growth in rental revenue of 0.7% in the quarter, and a 2.0% increase in average rents.

Killam’s three core markets in NB represent 25.1% of the Company’s apartment NOI and equity income. Following year-over-year occupancy improvements in both Moncton and Saint John during Q1, these two markets again showed improved occupancy levels during Q2-2014. Moncton achieved 95.9% occupancy at June 30, 2014, a 290 basis point improvement from a year earlier. Driven by strong population growth in recent years, Moncton is another market that has experienced higher than normal levels of apartment construction. Killam has increased its marketing programs, including incentive offerings in response to market trends, and has successfully improved occupancy in Moncton, and grown revenue by 4.6% in Q2-2014 compared to Q2-2013.

Killam continues to show strong improvements in its Saint John portfolio, which had been its softest market for much of 2012 and 2013. Saint John achieved an impressive 610 bps occupancy improvement from June 30, 2013. A slight decrease in rental rates, down 1.1% from a year earlier, and an expanded leasing team, has proven successful, resulting in a 4.7% growth in same store revenue in Saint John quarter-over-quarter. There are encouraging signs of economic growth in the city, including a $450 million upgrade to the local saw mill and the potential for the $12 billion Energy East pipeline, which is proposed to bring oil from Western Canada to Saint John, home to Canada's largest refinery.

Fredericton also showed occupancy improvements in the quarter, with occupancy levels at 94.4%, a 110 bps improvement from June 30, 2013, and revenue growth of 1.2% in the quarter.

Killam’s St. John’s portfolio, which has led Killam’s occupancy and revenue growth for the last three years, has experienced a recent softening in occupancy levels compared to the last four years, ending the quarter 95.9% occupied, compared to 96.5% occupied at the end of Q2-2013. A new 500-bed residence at Memorial University was completed in early 2014 and has contributed to this change, specifically at Killam’s 152-unit Freshwater Road Apartments that is located within walking distance to the university. Despite the decline in occupancy, the St. John’s portfolio achieved 1.2% revenue growth attributable to increased rental rates, up 3.3% over the last year.

The Company’s Charlottetown portfolio has had an improving occupancy trend since a change to the province’s immigration program resulted in an initial occupancy drop in Q4-2012. At June 30, 2014, the Charlottetown portfolio was 96.5% occupied, up 220 bps from June 30, 2013. Despite a small decline in rental rates in the market (down 0.6% year-over-year), PEI property revenue grew by 2.1% in the quarter.

The Ontario portfolio represented 12.5% of Killam’s apartment NOI and equity earnings during the first six months of 2014. Killam has achieved strong improvement in occupancy levels in its Ontario portfolio over the last year. At June 30, 2014, occupancy was 95.8%, up 230 bps from 93.5% occupancy at June 30, 2013. Excluding two new acquisitions that closed in March 2014, the portfolio achieved occupancy of 96.2% at June 30, 2014. Rents for same store properties were up 0.7% as the focus during the last year has been on occupancy improvement. Overall, Ontario's same store rental revenue was up 4.4% during the last quarter.

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

Apartment Expenses

Total same store property expenses increased 3.7% and 7.9% for the three and six months ended June 30, 2014, due primary to an increase in utility and fuel expenses as a result of high natural gas prices in Atlantic Canada and higher electricity and water costs. Increased operating expenses in Q1-2014 also contributed to the higher total property expense growth year-to-date.

Same store operating expenses were 1.1% lower for the three months ended June 30, 2014, compared to the same period in 2013. The decrease was mainly due to timing of maintenance expenses, partially offset by increased advertising, contract services and salary costs. For the six months ended June 30, 2014, same store operating expenses increased by 4.1% as the Company placed additional focus on advertising in competitive leasing markets where vacancy was higher than the previous year. Also contributing to the increased operating expenses for the first half of 2014 were additional salary costs and increased contract services related to higher snow removal costs in various regions.

Utility and Fuel Expense - Same Store

For the three months ended June 30,

	2014	2013	% Change
Natural gas	**$1,173**	$972	20.7%
Electricity	**1,358**	1,201	13.1%
Water	**1,054**	912	15.6%
Oil	**313**	334	(6.3)%
Other	**7**	8	(12.5)%
Total utility and fuel expenses	**$3,905**	$3,427	13.9%

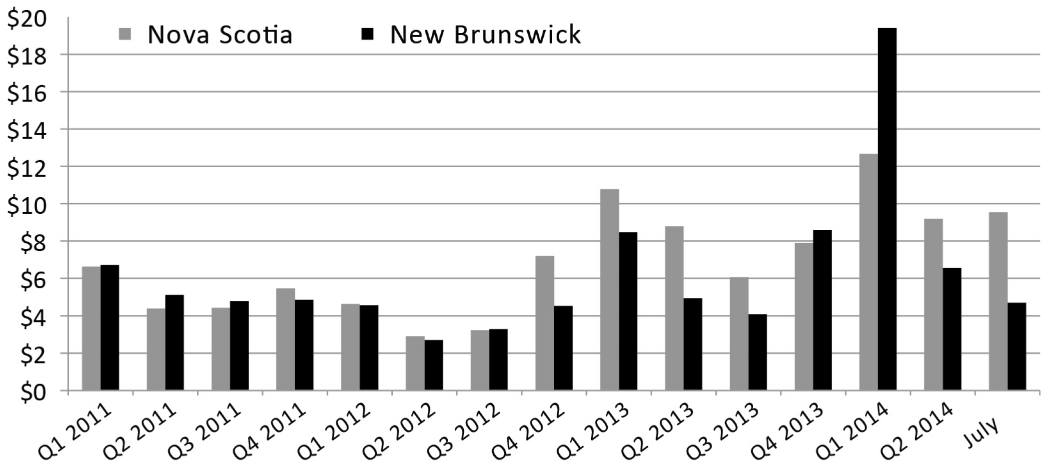
For the six months ended June 30,

	2014	2013	% Change
Natural gas	**$3,969**	$3,111	27.6%
Electricity	**3,296**	2,916	13.0%
Water	**2,004**	1,828	9.6%
Oil	**974**	916	6.3%
Other	**15**	15	-%
Total utility and fuel expenses	**$10,258**	$8,786	16.8%

Killam’s apartment properties are heated with a combination of natural gas (56%), electricity (36%) and oil (8%). 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. Fuel costs associated with natural gas or oil-fired heating plants are paid by Killam.

Killam’s same store natural gas costs increased by $0.2 million, or 20.7% during Q2-2014. The increase was primarily attributable to a colder spring, resulting in increased natural gas consumption, and increased gas costs in New Brunswick in the quarter. The average per gigajoule (Gj) cost of natural gas in NB was 25% higher in Q2-2014 compared to Q2-2013. Despite the year-over-year impact, as the chart on page 14 highlights, natural gas prices in NB came down significantly from Q1 as the demand pressures, which drove up pricing in the winter season, alleviated with warmer weather. Management expects lower natural gas pricing in NB to continue until the winter heating season starts in December. Natural gas prices also came down in NS during Q2 from Q1 but to a less significant extent. The NS province’s natural gas supplier had fixed a large portion of its annual consumption requirements with annualized fixed rate contracts, resulting in less volatility throughout the year, but a higher cost of natural gas in Q2-2014. The per Gj cost of natural gas in NS increased 2% quarter-over-quarter.

Cost of Natural Gas in Nova Scotia and New Brunswick
(commodity charge per GJ)



Electricity costs for Killam's same store properties were up 13.1% in Q2-2014 as compared to the same period of 2013. The electricity costs represent common area electricity costs, including electric heating costs, and a portfolio of electrically heated units with heat included as part of the rental agreement. The increased cost in Q2-2014 was attributable to a combination of higher electricity rates, colder weather and an increase in the number of units with electricity included. Killam has increased the number of units with electricity included at certain NB properties to compete with similar promotions offered by other apartment owners in the market. Killam prefers not to include electricity in rental rates and rents are typically increased to offset this additional expense; however tenants are attracted to fixing the cost of electricity in their monthly rental payment.

Water expense for same store properties increased by 15.6% quarter-over-quarter. This increase was predominantly in Halifax, and had been expected, with the second of two significant water rate increases that came into effect in April 2014. Prior to the April increase, another water rate increase became effective in July 2013, also reflected in the quarter-over-quarter price increases. Killam will continue to invest in water-saving initiatives to mitigate its exposure to these increased costs. Excluding the increase in Halifax, water expense for Killam's other same store properties was up only 1.9% in the quarter.

Heating oil costs for Q2-2014 decreased 6.3% from Q2-2013 due primarily to the timing of oil deliveries quarter-over-quarter. Year-to-date oil costs are up 6.3%, due to a combination of colder weather and increased oil prices.

Same store property taxes were flat in Q2 as the positive impact of successful tax appeals in the quarter offset a modest increase of 1.7% for the six months ended June 30, 2014. Killam expects that future realty tax increases will be modest given that Killam's portfolio now has current market value assessments.

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

Apartment Same Store NOI by City

Net revenue growth of 1.9%, partially offset by increased property operating expenses, increased same store apartment NOI by 0.7% for the three months ended June 30, 2014. Same store NOI results by city, as shown in the charts below, vary primarily depending on changes in occupancy levels in each market.

Year-to-date, same store apartment NOI is 3.4% lower than the comparable period of 2013 due to the impact of high natural gas costs in Atlantic Canada and the colder than normal heating season in Q1-2014. These year-to-date results by city are largely influenced by the higher heating costs experienced in all regions during the first three months of 2014.

Same Store NOI Results by City

For the three months ended June 30,

	2014	2013	$ Change	% Change
Halifax	**$7,876**	$7,983	$(107)	(1.3)%
Moncton	**1,754**	1,644	110	6.7%
Fredericton	**1,713**	1,769	(56)	(3.2)%
Ontario	**1,356**	1,329	27	2.0%
St. John's	**1,212**	1,205	7	0.6%
Charlottetown	**1,001**	978	23	2.4%
Saint John	**1,111**	1,028	83	8.1%
Other Atlantic locations	**615**	588	27	4.6%
	$16,638	$16,524	$114	0.7%

For the six months ended June 30,

	2014	2013	$ Change	% Change
Halifax	**$14,857**	$15,429	$(572)	(3.7)%
Moncton	**3,182**	3,195	(13)	(0.4)%
Fredericton	**3,157**	3,428	(271)	(7.9)%
Ontario	**2,743**	2,656	87	3.3%
St. John's	**2,310**	2,315	(5)	(0.2)%
Charlottetown	**1,763**	1,785	(22)	(1.2)%
Saint John	**1,651**	1,936	(285)	(14.7)%
Other Atlantic locations	**1,132**	1,119	13	1.2%
	$30,795	$31,863	$(1,068)	(3.4)%

As previously noted, occupancy gains, along with positive rental rate increases in most regions, led to second quarter NOI growth. The severe winter in Atlantic Canada, combined with a dramatic rise in utility and fuel expenses, resulted in a drop in Q1-2014 NOI, impacting the results for the six months ended June 30, 2014.

Halifax's NOI declined 1.3% and 3.7% for the three and six months ended June 30, 2014. Despite rental rate growth of 2.0%, increased vacancy partially offset this growth, generating overall a net revenue gain of 0.7% during Q2-2014. This improvement in net revenues was offset by higher water costs, increased advertising spend to target higher vacancy in this market and higher property tax assessments.

Fredericton's NOI declined 3.2% and 7.9% for the three and six months ended June 30, 2014. Occupancy gains were realized in Q2-2014 along with rental rate growth of 0.8%, resulting in modest net revenue gains. Property expenses increased 7% and 10% for the three and six months of 2014, driven by higher utility and fuel costs and higher property tax assessments.

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

Saint John, Moncton and Charlottetown recorded positive NOI growth of 8.1%, 6.7% and 2.4%, respectively, for the three month period ended June 30, 2014. This growth was attributed to both increased rental rates and large occupancy gains over the same period of last year. Moncton and Saint John also benefited in Q2-2014 from successful property tax appeals.

Ontario achieved strong NOI growth for the three and six months ended June 30, 2014 with 2.0% and 3.3% positive increases from the same periods in 2013. This region has lifted same store occupancy levels by 160 bps in the past year, along with small rental rate increases, driving net revenue growth of 3.7% year-to-date.

St. John's also realized positive NOI for Q2-2014, 0.6% growth from Q2-2013, while year-to-date the NOI is 0.2% lower than 2013. Same store rental rates have increased 3.3%, partially offset by increased vacancy, resulting in 1.2% net revenue growth year-to-date. Higher property expenses costs were mostly attributable to the colder heating season and more snow accumulation in Q1-2014, as well as the timing of some discretionary spending.

Other Atlantic locations include seven properties in other cities in Atlantic Canada. These properties realized NOI growth of 4.6% and 1.2% for the three and six months ended June 30, 2014 due to rental rate increases, savings from successful property tax appeals and timing of discretionary operating expenses.

MHC Results

For the three months ended June 30,

	Total Portfolio			Same Store			Non Same Store		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Property revenue	**$3,530**	$4,927	(28.4)%	**$3,496**	$3,360	4.0%	**$34**	$1,567	(97.8)%
Property expenses									
Operating expenses	**(836)**	(1,167)	(28.4)%	**(833)**	(897)	(7.1)%	**(3)**	(270)	(98.9)%
Utility and fuel expenses	**(337)**	(474)	(28.9)%	**(336)**	(270)	24.4%	**(1)**	(204)	(99.5)%
Property taxes	**(135)**	(251)	(46.2)%	**(133)**	(135)	(1.5)%	**(2)**	(116)	(98.3)%
Total property expenses	**(1,308)**	(1,892)	(30.9)%	**(1,302)**	(1,302)	-%	**(6)**	(590)	(99.0)%
NOI	**$2,222**	$3,035	(26.8)%	**$2,194**	$2,058	6.6%	**$28**	$977	(97.1)%
Operating margin	**62.9%**	61.6%	2.1%	**62.8%**	61.3%	2.4%	**82.4%**	62.3%	32.3%

For the six months ended June 30,

	Total Portfolio			Same Store			Non Same Store		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Property revenue	**$6,428**	$9,209	(30.2)%	**$6,165**	$5,968	3.3%	**$263**	$3,241	(91.9)%
Property expenses									
Operating expenses	**(1,539)**	(2,141)	(28.1)%	**(1,530)**	(1,589)	(3.7)%	**(9)**	(552)	(98.4)%
Utility and fuel expenses	**(664)**	(1,013)	(34.5)%	**(661)**	(583)	13.4%	**(3)**	(430)	(99.3)%
Property taxes	**(284)**	(499)	(43.1)%	**(281)**	(267)	5.2%	**(3)**	(232)	(98.7)%
Total property expenses	**(2,487)**	(3,653)	(31.9)%	**(2,472)**	(2,439)	1.4%	**(15)**	(1,214)	(98.8)%
NOI	**$3,941**	$5,556	(29.1)%	**$3,693**	$3,529	4.6%	**$248**	$2,027	(87.8)%
Operating margin	**61.3%**	60.3%	1.7%	**59.9%**	59.1%	1.4%	**94.3%**	62.5%	50.9%

Killam's MHC business accounted for 10% of NOI from property operations during the six months ended June 30, 2014, compared to 15% in Q2-2013. Property revenue from the MHCs decreased $1.4 million (or 28.4%) and $2.8 million (or 30.2%) for the three and six months ended June 30, 2013, due to the sale of the New Brunswick MHC properties in November 2013. The impact of the sale was partially offset by increased revenue at same store properties. Killam's MHC properties were 98.0% occupied at June 30, 2014, consistent with the occupancy at June 30, 2013.

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

Same store MHC property revenue increased 4.0% and 3.3% for the three and six months ended June 30, 2014, compared to the same periods in 2013. This was a result of a 3.3% increase in weighted average rent per unit to $222, up from $215 as of June 2013. For Q2-2014, total same store property expenses were comparable to 2013. Year-to-date, same store property expenses increased by 1.4% due to higher water costs and increased property taxes, partially offset by timing of property operating costs.

Same store revenue growth, combined with efforts to minimize operating expenses, increased MHC same store NOI by 6.6% and 4.6% for the three and six months ended June 30, 2014. As a result, operating margins have increased as well for the three and six months ended June 30, 2014, by 150 bps and 80 bps.

Non same store revenues and expenses were related to the NB MHC properties sold in November 2013 and a new Nova Scotia MHC purchased in December 2013, along with non-recurring revenue items.

PART IV

Other Income

Home Sales

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Home sale revenue	**$374**	$980	(61.8)%	**$820**	$1,400	(41.4)%
Cost of home sales	**(331)**	(812)	(59.2)%	**(751)**	(1,156)	(35.0)%
Operating expenses	**(17)**	(14)	21.4%	**(33)**	(31)	6.5%
Income from home sales	**$26**	$154	(83.1)%	**$36**	$213	(83.1)%

Killam completed four home sales during the second quarter of 2014, compared to ten home sales in the same period of 2013. Year-to-date, Killam has completed eight homes sales compared to fourteen homes sales in the first six months of 2013. In 2013, Killam had two active development sites for home sales compared to one in 2014 as one development site was included in the New Brunswick MHC sale in November 2013.

The profit margins are lower in 2014 compared to 2013 due to the geographic mix of the MHC homes sold, as well as the decision to sell a long-standing, inventoried stock home at below cost in NS in Q1-2014. This allowed for the recovery of over $80,000 in inventory costs and the elimination of utility costs for this stock home during the winter months. The Company does not anticipate selling any other homes below cost. However, local market conditions and age of inventoried stock homes will always play a factor in the pricing, and thus margin, of Killam’s home sales.

The Company projects an additional 5-10 home sales for 2014, which will include a mix of new development sites and sales on currently vacant lots throughout the MHC portfolio.

Equity Income

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Equity income	**$166**	$841	(80.3)%	**$334**	$969	(65.5)%

Equity income represents Killam's 25% interest in the net income of the joint venture that owns 180 Mill Street, Kanata Lakes and Silver Spear Apartments, all of which are located in Ontario.

Equity income decreased quarter-over-quarter and year-to-date due to fair value gains recognized on the Kanata Lakes property in Q2-2013. Excluding this non-cash increase in fair value, the equity income for three and six months ended June 30, 2013 was $0.15 million and $0.28 million. The 10.7% increase in equity income in Q2 excluding the fair value gain is related to increased occupancy experienced in all three properties.

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

Corporate Income

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Corporate income	**$205**	$190	7.9%	**$383**	$424	(9.7)%

Corporate income includes property management fees, interest on bank accounts and interest on the loan receivable. The 7.9% increase quarter-over-quarter relates to the interest earned on a $4.0 million mezzanine loan that was issued on May 23, 2014, as discussed on page 25. Corporate income decreased 9.7% for the six months ended June 30, 2014 as compared to the same period of 2013, as a result of higher than normal cash balances in early 2013 due to the timing of a December 2012 equity raise and the subsequent deployment of those funds.

Fair Value Gains

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Apartments	**$7,994**	$10,374	(22.9)%	**$ 7,994**	$14,570	(45.1)%
MHCs	**206**	9,825	(97.9)%	**206**	9,920	(97.9)%
	$8,200	$20,199	(59.4)%	**$ 8,200**	$24,490	(66.5)%

The effective weighted average cap-rate used to value the apartment properties decreased 10 bps to 5.78% from December 31, 2013, and 7 bps from the same period of 2013, resulting in an increased valuation and fair value gains for Killam's investment properties of $8.2 million during Q2-2014.

The effective weighted average cap-rate used to value the MHCs decreased by 5 bps in the second quarter of 2014 compared to 2013, while the effective weighted average cap-rate increased 15 bps from Q2-2013. The cap-rate compression in the quarter resulted in a $0.2 million fair value gain for Q2-2014 and year-to-date 2014. The increase in the cap-rate from Q2-2013 is a result of a different weighted portfolio of MHC properties held at the end Q2-2014 and Q2-2013.

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,		
	2014	2013	% Change	**2014**	2013	% Change
Mortgage and loan interest	**$7,346**	$7,371	(0.3)%	**$14,566**	$14,631	(0.4)%
Amortization of fair value adjustments on assumed debt	**(124)**	(109)	13.8%	**(251)**	(205)	22.4%
Convertible debenture interest	**1,685**	1,684	0.1%	**3,368**	3,336	1.0%
Subordinated debenture interest	**-**	-	-	**-**	10	-%
Capitalized interest	**(227)**	(403)	(43.7)%	**(393)**	(877)	(55.2)%
	$8,680	$8,543	1.6%	**$17,290**	$16,895	2.3%

Financing costs increased $0.1 million, or 1.6% during Q2-2014 compared to the same period in 2013. Year-to-date financing costs are $0.4 million, or 2.3%, higher than the same period of 2013. For both periods, the increase is primarily due to the decrease in capitalized interest associated with completed development projects and the addition of mortgage debt associated with properties acquired and developed since 2013. This increase in financing costs is partially offset by refinancings at lower interest rates, as well as less interest costs relating to the MHCs sold in the fourth quarter of 2013.

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

Mortgage and loan interest expense on Killam's same store properties was $6.1 million for the three months ended June 30, 2014, down from $6.4 million for the same period in 2013. Year-to-date mortgage and loan interest expense was $12.2 million compared to $12.8 million in 2013. As a percentage of property revenue, same store mortgage and loan interest expense was lower quarter-over-quarter and year-to-date, at 18.9% and 19.3%, compared to 20.2% and 20.6%, respectively.

Killam manages interest rate risk by entering into fixed rate mortgages and staggering the maturity dates, as well as entering into forward interest rate hedges. An annualized 100 basis point change in the interest rate on Killam's entire mortgage and vendor debt at June 30, 2014, would affect financing costs by approximately $7.5 million per year. However, only $131.1 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 basis point increase in interest rates, financing costs would increase by $1.3 million per year. The Company's credit facility and operating facility are discussed on page 29 of the MD&A.

Capitalized interest decreased quarter-over-quarter and year-to-date as a result of four development projects ongoing in 2013 compared to two in 2014. Interest costs associated with development projects are capitalized to the respective development property until substantial completion is achieved.

Depreciation Expense

	Three months ended June 30,			**Six months ended June 30,**		
	2014	2013	% Change	**2014**	2013	% Change
Total	**$153**	$147	4.1%	**$298**	$286	4.2%

Depreciation expense relates to the Company's head office building, vehicles, heavy equipment and administrative office furniture, fixtures and computer 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 increases for the three and six months ended June 30, 2014 is a result of depreciation of additions, which included vehicles, computer software and leasehold improvements.

Amortization of Deferred Financing Costs

	Three months ended June 30,			**Six months ended June 30,**		
	2014	2013	% Change	**2014**	2013	% Change
Total	**$419**	$400	4.8%	**$831**	$787	5.6%

Deferred financing amortization has increased 4.8% and 5.6% for the three and six months ended June 30, 2014. These increases are a result of refinancings and new debt placements on both acquired properties and completed developments in 2013. This was partially offset by the deferred financing costs related to ten NB MHC properties that were sold in November 2013.

Deferred financing costs include mortgage assumption fees, application fees and legal costs related to obtaining financing, 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,**		
	2014	2013	% Change	**2014**	2013	% Change
Total	**$2,285**	$1,940	17.8%	**$4,048**	$3,635	11.4%
As a percentage of total revenues	**6.3%**	5.6%		**5.7%**	5.4%	

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.

Administrative expenses as a percentage of revenues were higher in the three and six months ended June 30, 2014, as a result of the timing of professional fees incurred in Q2-2014. Management targets annualized administrative costs at approximately 6.0% of total revenues.

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

Deferred Tax Expense

The Company has booked future income tax expense for the three and six months ended June 30, 2014, and 2013. 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 three to five years.

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. REALpac does not address this specific type of adjustment. The FFO for the three and six months ended June 30, 2014, are determined as follows:

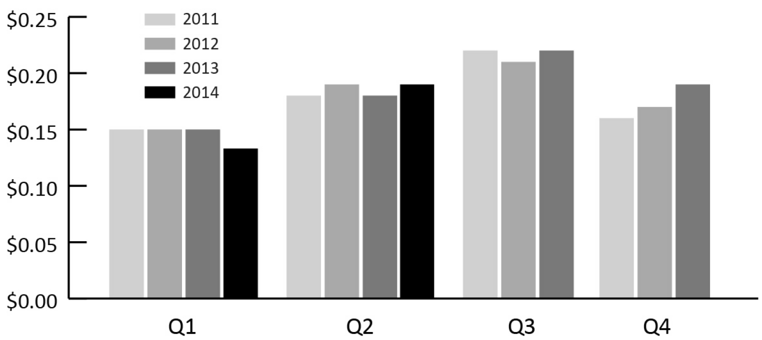
	Three months ended June 30,			**Six months ended June 30,**		
	2014	2013	% Change	**2014**	2013	% Change
Net income	**$14,700**	$23,437	(37.3)%	**$19,755**	$32,819	(39.8)%
Fair value gains	**(8,200)**	(20,199)	(59.4)%	**(8,200)**	(24,490)	(66.5)%
Fair value gains included in equity income	**-**	(691)	(100.0)%	**-**	(691)	(100.0)%
Non-controlling interest (before tax and gains)	**(259)**	(246)	5.3%	**(517)**	(488)	5.9%
Income tax expense	**3,801**	7,313	(48.0)%	**5,886**	10,239	(43)%
Depreciation on owner-occupied building	**42**	35	20.0%	**90**	72	25.0%
Gain on disposition	**-**	(171)	(100.0)%	**(94)**	(171)	(45.0)%
Tax planning costs	**89**	-	N/A	**89**	-	N/A
FFO	**$10,173**	$9,478	7.3%	**$17,009**	$17,290	(1.6)%
FFO/share - basic	**$0.19**	$0.18	5.6%	**$0.31**	$0.32	(3.1)%
FFO/share - diluted	**$0.18**	$0.17	5.9%	**$0.31**	$0.32	(3.1)%
Weighted average shares- basic (000's)	**54,752**	54,029	1.3%	**54,679**	53,952	1.3%
Weighted average shares - diluted (000's) (1)	**64,828**	54,413	19.1%	**54,958**	54,338	1.1%

(1) The calculation of weighted average shares outstanding for diluted FFO and AFFO purposes excludes the convertible debentures as they are anti-dilutive, except for Q2-2014, as they are dilutive. To calculate the Q2-2014 diluted FFO per share, an adjustment for the dilutive effect of convertible debentures of $1.69 million is added back to FFO.

Killam earned FFO of $10.2 million, or $0.19 per share, during Q2-2014 compared to $9.5 million, or $0.18 per share, during Q2-2013. This $0.7 million increase in FFO is primarily attributable to same store NOI growth ($0.3 million), contributions from acquisitions and developments ($1.0 million), and interest rate savings ($0.3 million). This growth was partially offset by a reduction in MHC earnings attributable to the properties sold in November 2013 ($0.7 million) and increased administrative expenses ($0.3 million).

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

FFO per Share ($)



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 earnings 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 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,**		
	2014	2013	% Change	**2014**	2013	% Change
Funds from operations	**$10,173**	$9,478	7.3%	**$17,009**	$17,290	(1.6)%
Maintenance Capital Expenditures						
Apartments	**(1,393)**	(1,309)	6.4%	**(2,646)**	(2,563)	3.2%
MHCs	**(129)**	(185)	(30.3)%	**(286)**	(370)	(22.7)%
Adjusted funds from operations	**$8,651**	$7,984	8.4%	**$14,077**	$14,357	(2.0)%
AFFO/ share - basic	**$0.16**	$0.15	6.7%	**$0.26**	$0.27	(3.7)%
AFFO/ share - diluted	**$0.16**	$0.15	6.7%	**$0.26**	$0.26	-%
AFFO payout ratio - basic(1)	**95%**	98%	(3.1)%	**114%**	109%	4.6%
AFFO payout ratio - rolling 12 months(2)	**99%**	98%	1.0%	**99%**	98%	1.0%

(1) Based on Killam's annualized dividend of $0.58 for 2013 and $0.60 for 2014.
(2) Based on weighted average dividend of $0.585 for the rolling 12-month period ending June 30, 2014.

The basic AFFO payout ratio of 99% for the three and six months ended June 30, 2014, is slightly higher than 2013 due to the increased monthly dividend distribution and decrease in FFO in Q1-2014. 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 the 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, 2014	December 31, 2013	% Change
Investment properties	**$1,509,851**	$1,451,743	4.0%
Investment properties under construction ("IPUC")	**36,048**	24,373	47.9%
	$1,545,899	$1,476,116	4.7%

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, 2014 and 2013.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Balance, beginning of period	**$1,475,847**	$1,345,133	**$1,451,743**	$1,296,724
Acquisition of properties	**18,937**	29,123	**38,920**	62,170
Disposition of properties	**-**	-	**(40)**	-
Transfer from IPUC	**-**	62,539	**-**	70,315
Capital expenditures	**6,867**	4,840	**11,028**	8,183
Fair value adjustments	**8,200**	20,247	**8,200**	24,490
Balance, end of period	**$1,509,851**	$1,461,882	**$1,509,851**	$1,461,882

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, 2014, December 31, 2013, and June 30, 2013, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	June 30, 2014			December 31, 2013			June 30, 2013		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**4.50%**	**8.00%**	**5.78%**	4.50%	8.00%	5.88%	4.50%	8.00%	5.85%
MHCs	**5.75%**	**8.25%**	**6.81%**	6.00%	8.25%	6.86%	6.00%	8.25%	6.66%

As highlighted in the above chart, the effective weighted average cap-rate used to value the apartment properties decreased by 10 bps from Q4-2014 and 7 bps from Q2-2013, generating an increased valuation for some properties in the second quarter of 2014.

The effective weighted average cap-rate used to value the MHCs decreased 5 bps from December 31, 2013, which resulted in nominal fair value gains for select MHC properties in Q2-2014. The increase in the effective weighted average cap-rate from Q2-2013 is a result of a different weighted portfolio of MHC properties held at the end Q2-2014 and Q2-2013.

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

A sensitivity analysis of all significant assumptions is shown below:

Class of property	Cap-rate		Vacancy rate(1)	Management fee rate(1)
	10 basis points increase	*10 basis points decrease*	*1% increase/ decrease in vacancy*	*1% increase/ decrease in management fee*
Apartments	$(23,615)	$24,446	$21,263	$22,378
MHCs	$(1,684)	$1,734	$1,495	$1,944

(1) If the 1% change is an increase in the noted vacancy or management fee, the impact would result in a decrease in value. Alternatively, a decrease in the vacancy or management fee would result in an increase in value.

2014 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Year Built	Units	Purchase Price(1)
Apartments					
65 Bonaccord Street	Moncton	21-Feb-14	2004	35	$3,925
50 Selkirk Street(2)	Ottawa	14-Mar-14	1959	75	6,893
350 Mayfield Avenue(2)	Ottawa	14-Mar-14	1959	61	5,607
300 Royale Blvd	Halifax	15-Apr-14	2014	83	18,625
					$35,050
Other					
36 Kelly Street(3)	Halifax	15-Jan-14			$1,577
1335 Hollis Street(4)	Halifax	28-Feb-14			1,542
					$3,119
Total Acquisitions					**$38,169**

(1) Purchase price on acquisition does not include transaction-related costs.
(2) Acquired as a portfolio.
(3) Acquired the leasehold interest of the land at 36 Kelly Street.
(4) 1335 Hollis Street is a 4-unit residential dwelling purchased for future redevelopment potential.

Investment Properties Under Construction

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Balance, beginning of period	**$29,427**	$64,588	**$24,373**	$57,941
Capital expenditures	**6,373**	12,477	**11,282**	20,931
Interest capitalized	**248**	403	**393**	877
Land acquisitions	**-**	-	**-**	5,447
Transfers to investment properties	**-**	(62,587)	**-**	(70,315)
Balance, end of period	**$36,048**	$14,881	**$36,048**	$14,881

During Q2-2014 Killam invested $6.0 million in Chelsea Place, a 102-unit development in St. John's, and Saginaw Gardens, a 122-unit development in Cambridge, Ontario. Year-to-date the Company has invested $10.6 million on these two developments. Chelsea Place is expected to cost $21.4 million and is anticipated to be completed during the fall of 2014. Saginaw Gardens is expected to cost $25.3 million and is anticipated to be completed during Q2-2015.

Killam has hired third-party project managers for each of the projects and has fixed the majority of construction costs. Both projects are on budget and are expected to generate all-cash yields of approximately 6.0%. This is an estimated 100 to 150 bp premium over the yield anticipated with the acquisition of similar quality assets. The remaining cash required to finish both projects is expected to come from construction financing, with Killam already having met its equity requirements on each project. Fixed rate mortgages will be placed on the development properties once they have been completed and substantially leased.

Killam expects to continue to grow through development. The Company currently holds land with development potential of 800 to 1,000 multi-family residential units. Within the next two years, Management has the opportunity to begin construction on an additional 350 to 400 units, including projects in downtown Halifax, Cambridge and St. John's.

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

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the three and six months ended June 30, 2014, Killam invested a total of $6.9 million and $11.0 million in its portfolio, compared to $4.8 million and $8.2 million for the same periods in 2013.

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Apartments	**$6,338**	$3,776	67.8%	**$10,272**	$6,406	60.3%
MHCs	**524**	1,053	(50.2)%	**747**	1,766	(57.7)%
Other	**5**	11	(54.5)%	**9**	11	(18.2)%
	$6,867	$4,840	41.9%	**$11,028**	$8,183	34.8%

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,		
	2014	2013	% Change	**2014**	2013	% Change
Building improvements	**$4,115**	$1,554	164.8%	**$5,598**	$2,866	95.3%
Suite renovations	**1,835**	1,771	3.6%	**3,800**	2,774	37.0%
Land improvements	**2**	2	-%	**2**	4	(50.0)%
Boilers and heating equipment	**46**	111	(58.6)%	**116**	148	(21.6)%
Appliances	**235**	263	(10.6)%	**516**	468	10.3%
Parking lots	**-**	4	(100.0)%	**13**	4	225.0%
Equipment	**50**	38	31.6%	**113**	82	37.8%
Other	**55**	33	66.7%	**114**	60	90.0%
Total capital spend	**$6,338**	$3,776	67.8%	**$10,272**	$6,406	60.3%
Average number of units outstanding	**12,891**	12,092	6.6%	**12,790**	11,906	7.4%
Capital spend per unit	**$492**	$312	57.7%	**$803**	$538	49.3%

Killam estimates that $450 per unit of the annual capital spend relates to maintenance capital, and the remainder relates to 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 structural repairs 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. This includes unit and common area upgrades and energy investments, such as natural gas conversions.

Killam spent $492 and $803 per unit in the three and six months ended June 30, 2014, compared to $312 and $538 per unit in the three and six months ended June 30, 2013.

Of the $6.3 million of capital investment made in the apartment segment for the second quarter, 65% was spent on building improvements. There are currently several large projects underway in various regions, with major facade upgrades, roof replacements, common area renovations and energy efficiency investments to increase the quality of the Company's assets.

Approximately 30% of the capital spend during the quarter was invested in suite renovations. The increase for both the three and six months ended June 30, 2014, was a result of unit upgrades to improve quality, increase occupancy 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. As examples, the Company continues to reposition such assets as the Brentwood Apartments in Halifax, as well as the Ottawa properties acquired in 2012 and Q1-2014. Increases in rent of 15% or greater are being realized on

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

Brentwood upgrades, and large occupancy gains have been realized in the Ottawa portfolio in the past 12 months. The Company has identified additional properties in the Atlantic region and Ontario for repositioning, and will continue to invest in upgrades where these higher yields can be achieved.

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

Value-enhancing capital improvements increase the operating effectiveness and profitability of Killam's apartment portfolio and the Company expects to invest approximately $24.0 million during 2014 on portfolio capital investments.

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,		
	2014	2013	% Change	**2014**	2013	% Change
Water & sewer upgrades	**$175**	$760	(77.0)%	**$273**	$1,376	(80.2)%
Roads and paving	**22**	17	29.4%	**47**	17	176.5%
Equipment	**3**	5	(40.0)%	**3**	7	(57.1)%
Other	**235**	243	(3.3)%	**270**	280	(3.6)%
Site expansion and land improvements	**89**	28	217.9%	**154**	86	79.1%
Total capital spend - MHCs	**$524**	$1,053	(50.2)%	**$747**	$1,766	(57.7)%
Average number of units outstanding	**5,164**	7,407	(30.3)%	**5,164**	7,407	(30.3)%
Capital spend per unit	**$101**	$142	(28.9)%	**$145**	$238	(39.1)%

Management expects to spend between $300 and $400 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 for the investment.

For the three and six months ended June 30, 2014, Killam invested $0.5 million and $0.7 million on capital expenditures compared to $1.1 million and $1.8 million in the same periods for 2013. This decrease primarily relates to a reduction in MHC properties with the MHC sale in November 2013, and a reduction in water and sewer system upgrades. Per unit costs quarter-over-quarter have decreased with fewer projects during the first half of 2014. Capital work fluctuates year-to-year with only $91 per unit invested in Q2-2012.

As with the apartment portfolio, the timing of capital investment changes based on requirements at each community. Killam expects to invest up to $2.0 million during 2014 on capital improvements across the MHC portfolio.

Loan Receivable

On May 23, 2014, the Company provided a $4.0 million mezzanine loan to a third party developer for the construction of a 172-unit multi-family residential property located in Kitchener, Ontario. The loan bears interest at prime plus 7%, or a minimum of 10%, paid quarterly. Full repayment of the loan is due within 36 months from the initial advance. In association with the financing arrangement, the Company has the right of first refusal to purchase the asset at fair market value upon completion.

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

Liquidity and Capital Resources

The Company's sources of capital are cash generated from operating activities, credit facilities, mortgage financing and refinancing, and equity and debt issuances. The Company's primary use of capital includes property acquisitions and developments, major property improvements, recurring property maintenance, debt principal and interest payments, and payment of dividends. The Company anticipates meeting all current and future obligations with current cash and cash equivalents, cash flow generated from operations and conventional mortgage refinancing 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 $8.6 million at June 30, 2014, a portion of which can be used for future growth.

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at,

	June 30, 2014	December 31, 2013	% Change
Weighted average years to maturity of mortgage and vendor debt (years)	**4.4**	3.9	12.8%
Gross mortgage, loan and vendor debt as a percentage of total assets	**46.4%**	45.6%	1.8%
Total debt as a percentage of total assets	**53.8%**	52.9%	1.7%
Interest coverage ratio (rolling twelve months)	**2.03x**	2.08x	(2.4)%
Debt service coverage ratio (rolling twelve months)	**1.31x**	1.34x	(2.2)%
Weighted average interest rate of mortgage and vendor debt	**3.85%**	4.05%	(20) bps
Weighted average interest rate of total debt	**4.19%**	4.38%	(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 vendor-take-back ("VTB") mortgages as part of an acquisition. Mortgages are secured by a first or second charge against the individual properties and the vendor financing is secured by a general corporate guarantee.

As at June 30, 2014, only the construction financing loans of $20.2 million and five demand loans, totalling $4.8 million, had floating interest rates. The construction financing has floating interest rates between prime to prime plus 1.0% and the demand loans carry an interest rate of prime plus 1.0% to 2.0%. Once construction has been completed and rental targets achieved, the construction loans will be repaid in full and converted into conventional mortgages.

Killam's June 30, 2014, weighted average interest rate on mortgages and vendor debt improved to 3.85% compared to 4.05% as at December 31, 2013, as a result of refinancings at lower interest rates during the period. This trend is expected to continue throughout the remainder of 2014 with another $64.4 million in mortgages to be refinanced during the second half of the year (totalling 9% of the portfolio). By December 31, 2016, an additional $209 million, or 28% of the Company's mortgage balance, will be refinanced and the weighted average years to maturity lengthened. Management expects to refinance at lower rates than its weighted average interest rate on maturing debt in 2014 (5.01%) and 2015 (4.50%).

Total debt as a percentage of total assets increased 90 bps compared to December 31, 2013, as a result of upfinancings and new debt placed on two investments properties acquired in late 2013 that were previously unencumbered. Management expects to maintain the percentage of debt to total assets between 55% and 65%. This ratio is sensitive to changes in the fair value of investment properties, in particular cap-rate changes. A 10 basis point increase in the weighted average cap-rate at June 30, 2014, would have increased the ratio of debt as a percentage of total assets by 80 bps.

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

Refinancings

During the six months ended June 30, 2014, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$73,231	4.28%	$97,877	2.90%	6.4 years	$24,646
MHCs	1,883	6.30%	1,883	4.23%	5.0 years	-
	$75,114	4.33%	$99,760	2.92%	6.4 years	$24,646

Subsequent to June 30, 2014, the Company refinanced $20.4 million of maturing apartment debt for new mortgage debt of $25.5 million and $4.4 million of maturing MHC debt for net mortgage debt of $6.6 million, yielding net proceeds of $5.1 million and $2.2 million, respectively. The weighted average interest rate on the new apartment debt is 2.44% and on the new MHC debt is 4.23%, compared to the previous weighted average interest rate of 4.18% and 5.83%, respectively. All six maturing apartment mortgages and two maturing MHC mortgages were refinanced for 5-year terms.

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, 2014**	Weighted Avg Int. Rate %	% CMHC Insured	**Balance June 30, 2014**	Weighted Avg Int. Rate %	**Balance June 30, 2014**	Weighted Avg Int. Rate %
2014	52,871	4.81	46.6	11,500	5.89	64,371 (1)	5.01
2015	88,478	4.47	69.2	4,156	5.19	92,634	4.50
2016	112,980	4.18	53.4	3,215	5.09	116,195	4.21
2017	27,970	3.14	96.2	17,710	4.64	45,680	3.72
2018	77,318	3.72	50.5	13,171	4.34	90,489	3.81
2019	117,977	3.03	96.0	1,879	4.23	119,856	3.05
2020	19,583	4.09	100.0	-	-	19,583	4.09
2021	23,403	3.79	88.7	-	-	23,403	3.79
2022	24,170	3.16	100.0	-	-	24,170	3.16
Thereafter	152,117	3.47	100.0	-	-	152,117	3.47
	$ 696,867	3.77	77.8	$ 51,631	4.90	$748,498	3.85

(1) Excludes $4.1 million related to demand loans classified as current mortgage debt on the Q2-2014 condensed consolidated financial statements.

As at June 30, 2014, approximately 78% of the Company's apartment mortgages were CMHC insured (72% of all mortgages as MHC properties are not eligible for CMHC insurance) (December 31, 2013 – 72% and 67%). The weighted average interest rate on the CMHC insured mortgages was 3.48% as at June 30, 2014 (December 31, 2013– 3.67%).

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 2014 and for 2015. With $153.4 million in mortgages maturing through 2015, Management is evaluating opportunities to fix interest rates before maturity to lock in savings on refinancings. To manage the interest rate risk, the Company entered into a fixed forward interest rate swap contract on March 7, 2014, partially hedging the exposure to changes in future borrowing rates related to two anticipated mortgage refinancings. The effective date of the hedge is October 1, 2014. The fixed interest rate on the 5-year forward swap is 2.36%, while the total notional amount of the mortgage debt subject to the interest rate hedge is $15.0 million. Based on the current market, Management estimates a 3.0% five-year mortgage interest rate. The Company expects to continue to evaluate opportunities to fix interest rates before maturity to lock in savings on refinancings.

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

2014 & 2015 Debt Refinancings

2014	**Number of Properties**	**NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing in 2014	22	$7,496	$51,537
MHCs with debt maturing in 2014	9	1,935	11,398
2014 debt maturities	31	$9,431	$62,935
2015			
Apartments with debt maturing in 2015	33	$12,495	$86,474
MHCs with debt maturing in 2015	4	788	3,962
2015 debt maturities	37	$13,283	$90,436

Future Contractual Debt Obligations

At June 30, 2014, 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**
2015	$141,029	$20,168	$-	**$161,197**
2016	85,978	-	-	**85,978**
2017	101,809	-	-	**101,809**
2018	82,096	-	103,500	**185,596**
2019	151,141	-	-	**151,141**
Thereafter	190,508	-	-	**190,508**
	$752,561	$20,168	$103,500	**$876,229**

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

As at June 30, 2014, the Company had access to three floating rate non-revolving demand construction loans totaling $48.0 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, 2014, $20.2 million (December 31, 2013 - $14.8 million) was drawn at a weighted average interest rate of 3.80% (December 31, 2013 - 3.75%).

Credit Facility

The Company has a credit facility with a major financial institution, which consists of 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, 2014, the Company had assets with a fair value of $1.7 million pledged to the line and had a balance outstanding of $Nil (December 31, 2013 - $Nil).

Operating Facility

The Company has an operating facility which consists of a $1.0 million revolving demand facility for general business purposes, bearing interest at the lender's prime rate plus 1%. As at June 30, 2014, the Company had letters of credit totaling $0.5 million outstanding against this facility (December 31, 2012 - $0.5 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

Shareholders' Equity

For the three and six months ended June 30, 2014, 31,250 and 133,750 stock options were exercised for common shares, and cash proceeds to the Company were $0.2 million and $0.8 million. There were also 1,401 and 4,134 restricted share units redeemed for common shares during the three and six months ended June 30, 2014.

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 common shares. Shareholders who participate in the DRIP receive an additional dividend of common 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 common 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, 2014, the Company issued 72,539 and 137,114 common shares under the DRIP with a value of $0.7 million and $1.4 million (three and six months ended June 30, 2013 – the Company issued 79,918 and 154,633 commons shares with a value of $0.9 million and $1.8 million). For the three and six months ended June 30, 2014, the average DRIP participation rate was 9% and 8% (three and six months ended June 30, 2013 the DRIP participated was 11%).

In addition, the Company issued 75,330 shares during Q1-2014 related to a Q4-2013 acquisition (50 Roy Boates Avenue).

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 2013 Annual Report and Annual Information Form 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 Company's accounting policies are described in Note 2 of the consolidated financial statements found in Killam's 2013 Annual Report.

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 2013 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred taxes.

During the first quarter of 2014, the Company entered into a forward interest rate hedge with a major Canadian financial institution and also applied IFRIC 21 as disclosed by Note 2(c) and Note 2(d) of the unaudited condensed consolidated financial statements. Except for the accounting policy and the application of the new interpretation mentioned above, there have been no changes to the Company's policies or procedures and the other processes, that materially affected, or are reasonably likely to materially affect, the Company's accounting judgments, estimates and assumptions.

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 policies or procedures and other processes that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Subsequent Events

On July 18, 2014, the Company announced a dividend of $0.05 per share, payable on August 15, 2014, to shareholders of record on July 31, 2014.