Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2014 and 2013

Condensed Consolidated Statements of Financial Position

In thousands of Canadian dollars,
(Unaudited)

As at	Note	**June 30, 2014**	December 31, 2013
ASSETS			
Non-current assets			
Investment properties	[3]	**$1,545,899**	$1,476,116
Investments in joint venture	[4]	**11,653**	11,469
Property and equipment	[5]	**4,921**	4,527
Loan receivable	[6]	**4,000**	-
Other non-current assets		**-**	17
		1,566,473	1,492,129
Current assets			
Cash		**8,612**	27,678
Rent and other receivables		**2,698**	2,751
Inventory		**340**	570
Other current assets		**14,585**	9,303
		26,235	40,302
TOTAL ASSETS		**$1,592,708**	$1,532,431
EQUITY AND LIABILITIES			
Shareholders' equity		**$596,257**	$590,724
Accumulated other comprehensive loss ("AOCL")		**(169)**	-
Non-controlling interest		**14,101**	13,336
Total Equity		**610,189**	604,060
Non-current liabilities			
Mortgages and loans payable	[7]	**598,087**	545,541
Convertible debentures	[9]	**97,179**	96,419
Other liabilities		**2,043**	2,171
Deferred tax		**99,364**	93,221
		796,673	737,352
Current liabilities			
Mortgages and loans payable	[7]	**141,029**	153,589
Construction loans	[8]	**20,168**	14,775
Accounts payable and accrued liabilities		**24,649**	22,655
		185,846	191,019
Total Liabilities		**982,519**	928,371
TOTAL EQUITY AND LIABILITIES		**$1,592,708**	$1,532,431

See accompanying notes to the condensed consolidated financial statements.

Approved on Behalf of the Board

(signed) "G. Wayne Watson"
Director

(signed) "Philip D. Fraser"
Director

Condensed Consolidated Statements of Income and Comprehensive Income

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

		Three months ended		Six months ended	
	Note	**June 30, 2014**	June 30, 2013	**June 30, 2014**	June 30, 2013
Property revenue		**$36,518**	$34,506	**$71,583**	$67,758
Property operating expenses		**(15,077)**	(14,281)	**(32,522)**	(29,364)
Net operating income		**21,441**	20,225	**39,061**	38,394
Other income					
Equity income	[4]	**166**	841	**334**	969
Home sales	[12]	**26**	154	**36**	213
Corporate income		**205**	190	**383**	424
		397	1,185	**753**	1,606
Other expenses					
Financing costs	[13]	**(8,680)**	(8,543)	**(17,290)**	(16,895)
Depreciation		**(153)**	(147)	**(298)**	(286)
Amortization of deferred financing costs		**(419)**	(400)	**(831)**	(787)
Administration		**(2,285)**	(1,940)	**(4,048)**	(3,635)
		(11,537)	(11,030)	**(22,467)**	(21,603)
Income before fair value gains, gain on disposition and income taxes		**10,301**	10,380	**17,347**	18,397
Fair value gains	[3]	**8,200**	20,199	**8,200**	24,490
Gain on disposition		**-**	171	**94**	171
Income before income taxes		**18,501**	30,750	**25,641**	43,058
Current tax recovery		**327**	-	**327**	-
Deferred tax expense		**(4,128)**	(7,313)	**(6,213)**	(10,239)
Net income		**$14,700**	$23,437	**$19,755**	$32,819
Other comprehensive loss					
Item that may be reclassified subsequently to net income					
Unrealized loss on forward interest rate hedge (net of tax - $44 and $70)	[17]	**(107)**	-	**(169)**	-
Comprehensive income		**$14,593**	$23,437	**$19,586**	$32,819
Net income attributable to:					
Common shareholders		**13,671**	23,238	**18,540**	32,206
Non-controlling interest		**1,029**	199	**1,215**	613
		$14,700	$23,437	**$19,755**	$32,819
Comprehensive income attributable to:					
Common shareholders		**13,564**	23,238	**18,371**	32,206
Non-controlling interest		**1,029**	199	**1,215**	613
		$14,593	$23,437	**$19,586**	$32,819
Net income per share attributable to common shareholders:					
-basic		**$0.25**	$0.43	**$0.34**	$0.60
-diluted		**$0.23**	$0.40	**$0.32**	$0.56

Condensed Consolidated Statements of Changes in Equity

In thousands of Canadian dollars,
(Unaudited)
Six months ended June 30, 2014

	Share Capital	Contributed Surplus	Other Paid-in Capital	Retained Earnings	AOCL	Non-Controlling Interest	Total Equity
At January 1, 2014	**$398,181**	**$2,302**	**$5,681**	**$184,560**	**$ -**	**$13,336**	**$604,060**
Net income	**-**	**-**	**-**	**18,540**	**-**	**1,215**	**19,755**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(169)**	**-**	**(169)**
Dividends	**-**	**-**	**-**	**(16,452)**	**-**	**-**	**(16,452)**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(450)**	**(450)**
Dividend reinvestment plan	**1,417**	**-**	**-**	**-**	**-**	**-**	**1,417**
Stock options exercised	**821**	**(98)**	**-**	**-**	**-**	**-**	**723**
Share-based compensation	**-**	**511**	**-**	**-**	**-**	**-**	**511**
Issuance of shares for acquisitions	**800**	**-**	**-**	**-**	**-**	**-**	**800**
Restricted share units redeemed	**49**	**(55)**	**-**	**-**	**-**	**-**	**(6)**
At June 30, 2014	**$401,268**	**$2,660**	**$5,681**	**$186,648**	**$(169)**	**$14,101**	**$610,189**

Six months ended June 30, 2013

	Share Capital	Contributed Surplus	Other Paid-in Capital	Retained Earnings	Non-Controlling Interest	Total Equity
At January 1, 2013	$391,120	$2,241	$5,681	$176,293	$13,101	$588,436
Net income	-	-	-	32,206	613	32,819
Dividends	-	-	-	(15,711)	-	(15,711)
Distributions to non-controlling interest	-	-	-	-	(569)	(569)
Dividend reinvestment plan	1,867	-	-	-	-	1,867
Stock options exercised	479	(55)	-	-	-	424
Share-based compensation	-	407	-	-	-	407
Issuance of shares for acquisitions	2,389	-	-	-	-	2,389
At June 30, 2013	$395,855	$2,593	$5,681	$192,788	$13,145	$610,062

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

In thousands of Canadian dollars,
(Unaudited)

		Three months ended		Six months ended	
		June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
OPERATING ACTIVITIES					
Net income		**$14,700**	$23,437	**$19,755**	$32,819
Add (deduct) items not affecting cash					
Fair value gains	[3]	**(8,200)**	(20,199)	**(8,200)**	(24,490)
Depreciation and amortization		**572**	547	**1,129**	1,073
Non-cash debenture interest		**-**	245	**-**	459
Non-cash compensation expense		**118**	130	**139**	247
Equity income		**(166)**	(841)	**(334)**	(969)
Deferred income taxes		**4,128**	7,313	**6,213**	10,239
Current tax recovery		**(327)**	-	**(327)**	-
Gain on disposition		**-**	(171)	**(94)**	(171)
Financing costs	[13]	**8,680**	8,543	**17,290**	16,895
Interest paid	[16]	**(8,934)**	(10,075)	**(16,048)**	(17,115)
Net change in non-cash operating activities	[16]	**(7,387)**	(1,016)	**(5,069)**	(1,675)
Cash provided by operating activities		**$3,184**	$7,913	**$14,454**	$17,312
FINANCING ACTIVITIES					
Increase in deferred financing		**(1,576)**	(993)	**(3,504)**	(2,166)
Proceeds on issuance of common shares		**225**	2,520	**808**	2,814
Repayment of subordinated debentures		**-**	-	**-**	(10,000)
Mortgage financing		**71,281**	35,328	**124,175**	81,796
Mortgages repaid on maturity		**(32,872)**	(16,003)	**(69,629)**	(34,592)
Mortgage principal repayments		**(5,567)**	(5,445)	**(11,348)**	(10,248)
Proceeds from construction loans		**4,501**	7,188	**5,393**	13,424
Construction loans repaid on maturity		**-**	(2,936)	**-**	(2,936)
Distributions paid to non-controlling interest		**(211)**	(291)	**(450)**	(569)
Dividends		**(7,482)**	(6,909)	**(14,921)**	(13,799)
Cash provided by financing activities		**$28,299**	$12,459	**$30,524**	$23,724
INVESTING ACTIVITIES					
Decrease in restricted cash		**2,207**	4,189	**1,192**	4,188
Increase in loan receivable		**(4,000)**	-	**(4,000)**	-
Investments in joint venture		**36**	27	**150**	211
Net proceeds on sale of land		**-**	171	**134**	171
Acquisition and development of investment properties, net of debt assumed		**(25,558)**	(30,771)	**(49,795)**	(78,193)
Capital expenditures		**(7,193)**	(5,192)	**(11,725)**	(8,849)
Cash used in investing activities		**$(34,508)**	$(31,576)	**$(64,044)**	$(82,472)
Net decrease in cash		**(3,025)**	(11,204)	**(19,066)**	(41,436)
Cash, beginning of the period		**11,637**	26,494	**27,678**	56,726
Cash, end of period		**$8,612**	$15,290	**$8,612**	$15,290

See accompanying notes to the condensed consolidated financial statements.

1. Corporate Information

Killam Properties Inc. ("Killam" or the "Company") is a real estate company specializing in the acquisition, management and development of multi-residential apartment buildings and manufactured home communities ("MHCs") in Canada. Killam is incorporated under the Canada Business Corporations Act. Killam's common shares are publicly traded and listed on the Toronto Stock Exchange under the symbol "KMP". The condensed consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at June 30, 2014**.** The Company's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the Company's registered office is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4.

The unaudited condensed consolidated financial statements of the Company for the period ended June 30, 2014, were authorized for issue in accordance with a resolution of the Board of Directors on August 6, 2014.

2. Significant Accounting Policies

(A) Statement of Compliance

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

(B) Basis of Presentation

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

The condensed consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies were presented as Note 2 to the consolidated financial statements for the fiscal year ended December 31, 2013, and, after the changes in accounting policies described in note 2(d), have been consistently applied in the preparation of these condensed consolidated financial statements.

The operating results for the three and six months ended June 30, 2014, are not necessarily indicative of results that may be expected for the full year ended December 31, 2014, due to seasonal variations in property expenses and other factors.

(C) Derivative Financial Instruments and Hedge Accounting - Initial Recognition and Subsequent Measurement

The Company uses interest rate swaps to hedge its risks associated with interest rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2. Significant Accounting Policies (continued)

Cash flow hedges

For the purpose of cash flow hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the consolidated statement of income. Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

When a derivative is held as an economic hedge for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item. A derivative instrument that is designated as an effective hedging instrument is classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if: 1) a reliable allocation can be made; and 2) it is applied to all designated and effective hedging instruments.

(D) Changes in Accounting Policies

The accounting policies applied during the second quarter of 2014 are consistent with those used in the audited consolidated financial statements for the year ended December 31, 2013, except for Note 2(c) above and the following International Financial Reporting Interpretations Committee ("IFRIC") interpretation effective for periods beginning on or after January 1, 2014:

IFRIC Interpretation 21 - Levies ("IFRIC 21")

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not have an impact on the Company's financial position or performance.

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

3. Investment Properties

The Company has used the following hierarchy for determining the fair value measurement of its investment properties and investment properties under construction ("IPUC"):

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have significant effect on the recorded fair value that are not based on observable market data.

As at and for the six month period ended June 30, 2014

Segment	**Apartments**	**MHCs**	**Other**	**IPUC**	**Total**
Level	**3**	**3**	**3**	**3**	
Balance, beginning of period	**$1,334,153**	**$115,414**	**$2,176**	**$24,373**	**$1,476,116**
Fair value gains included in net income					
Fair value gains on investment property	**7,994**	**206**	**-**	**-**	**8,200**
Acquisitions and dispositions					
Acquisitions	**38,920**	**-**	**-**	**-**	**38,920**
Dispositions	**-**	**(40)**	**-**	**-**	**(40)**
Other movements					
Capital expenditure on investment property	**10,272**	**747**	**9**	**-**	**11,028**
Capital expenditure on IPUC	**-**	**-**	**-**	**11,282**	**11,282**
Interest capitalized on IPUC	**-**	**-**	**-**	**393**	**393**
Balance, end of period	**$1,391,339**	**$116,327**	**$2,185**	**$36,048**	**$1,545,899**

As at and for the year ended December 31, 2013

Segment	Apartments	MHCs	Other	IPUC	Total
Level	3	3	3	3	
Balance, beginning of year	$1,126,189	$168,401	$2,134	$57,941	$1,354,665
Fair value gains included in net income					
Fair value gains on investment property	1,272	11,798	-	-	13,070
Acquisitions and dispositions					
Acquisitions	118,277	1,390	-	7,294	126,961
Dispositions	-	(69,680)	-	-	(69,680)
Other movements					
Transfer from IPUC	70,315	-	-	(70,315)	-
Capital expenditure on investment property	18,100	3,505	42	-	21,647
Capital expenditure on IPUC	-	-	-	28,356	28,356
Interest capitalized on IPUC	-	-	-	1,097	1,097
Balance, end of year	$1,334,153	$115,414	$2,176	$24,373	$1,476,116

During the three and six months ended June 30, 2014, the Company capitalized salaries of $0.8 million and $1.5 million (three and six months ended June 30, 2013 - $0.7 million and $1.2 million), as part of its project improvement, suite renovation and development programs.

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

3. Investment Properties (continued)

For the three and six months ended June 30, 2014, interest costs associated with the general corporate borrowings used to fund development have been capitalized to the respective development using the Company's weighted average borrowing rate of 4.19% (June 30, 2013 - 4.60%). Interest costs associated with construction loans are capitalized to the respective development using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $1,461,696 at June 30, 2014, (December 31, 2013 - $1,432,731) are pledged as collateral against the Company's mortgages payable.

The following table presents the following for each class of investment property:

- the level of the fair value hierarchy;
- the carrying amount or fair value of the investment property;
- a description of the valuation technique; and
- for Level 3 fair value measurements, quantitative information about significant unobservable inputs.

Class of property	Fair value at June 30, 2014	Fair value at December 31, 2013	Valuation technique	Unobservable inputs	2014 Inputs	2013 Inputs
Apartments			Income	- Capitalization rate (weighted average)	**5.78%**	5.88%
-Level 3	**$1,391,339**	$1,334,153	capitalization	- Vacancy rate (weighted average)	**3.50%**	3.50%
			approach	- Management fee rate	**3.50%**	3.50%
MHCs			Income	- Capitalization rate (weighted average)	**6.81%**	6.86%
-Level 3	**$116,327**	$115,414	capitalization	- Vacancy rate	**1.70%**	1.70%
			approach	- Management fee rate	**3.00%**	3.00%

The investment property segment defined as Other consists of one commercial property of which the Company has a 50% ownership. The property has a fair value of $2.2 million (December 31, 2013 - $2.2 million).

IPUC includes land held for future development, which is recorded at a fair value of $2.9 million (December 31, 2013 - $2.8 million) and properties under construction of $33.2 million (December 31, 2013 - $21.6 million). Properties under construction of $21.1 million are recorded at cost because fair value cannot be reliably determined for properties under construction as the projects are in the early stages of development.

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

3. Investment Properties (continued)

Sensitivity Analysis

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

	June 30, 2014			December 31, 2013			June 30, 2013		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments			**5.78%**			**5.88%**			**5.85%**
Halifax	5.15%	7.00%	5.73%	5.15%	7.00%	5.87%	5.15%	7.00%	5.77%
Moncton	5.15%	8.00%	5.90%	5.56%	8.00%	5.94%	5.75%	8.00%	6.03%
Fredericton	5.15%	6.25%	5.92%	5.15%	6.25%	5.93%	5.15%	6.25%	5.94%
Saint John	6.25%	6.75%	6.56%	6.25%	6.75%	6.63%	6.00%	6.50%	6.32%
St. John's	5.15%	6.00%	5.92%	5.15%	6.25%	5.94%	5.15%	6.25%	5.85%
Charlottetown	5.65%	6.00%	5.87%	5.65%	6.00%	5.88%	5.65%	6.25%	5.95%
Ontario	4.50%	5.25%	5.24%	4.50%	5.25%	5.26%	4.50%	5.67%	5.24%
Other Atlantic	5.75%	7.00%	6.14%	6.00%	7.00%	6.76%	6.00%	7.00%	6.77%
MHCs			**6.81%**			**6.86%**			**6.66%**
Ontario	7.00%	8.00%	7.09%	7.00%	8.00%	7.09%	7.00%	8.00%	7.10%
Nova Scotia	5.75%	7.50%	6.53%	6.00%	7.50%	6.61%	6.00%	7.50%	6.63%
New Brunswick	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	6.00%	8.25%	6.35%
Newfoundland	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%

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

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

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

4. Investments in Joint Venture

The Company has the following significant interest in a joint venture, which is measured using the equity method. Through this joint venture, Killam owns:

a) 25% share in a 127-unit property located in London, Ontario;
b) 25% share in a 140-unit property located in Ottawa, Ontario; and,
c) 25% share in a 199-unit property located in Mississauga, Ontario.

	June 30, 2014	December 31, 2013
Balance, beginning of period	**$11,469**	$10,289
Additions	**-**	97
Share of net income	**334**	1,296
Distributions	**(150)**	(213)
Balance, end of period	**$11,653**	$11,469

As at	**June 30, 2014**	December 31, 2013
Current assets	**$5,777**	$5,920
Long-term assets	**115,971**	115,425
Current liabilities	**(5,606)**	(4,979)
Long-term liabilities	**(69,528)**	(70,492)
Net assets	**46,614**	45,874
Company's share of net assets of associate	**$11,653**	$11,469

	For the three months ended June 30,		**For the six months ended June 30**	
	2014	2013	**2014**	2013
Property revenue	**$2,998**	$2,999	**$6,081**	$5,847
Property operating expenses	**(1,699)**	(1,745)	**(3,467)**	(3,285)
Net operating income	**1,299**	1,254	**2,614**	2,562
Interest and deferred financing expense	**(637)**	(653)	**(1,279)**	(1,448)
Fair value gains	**-**	2,763	**-**	2,763
Net income and comprehensive income	**662**	3,364	**1,335**	3,877
Company's share of net income and comprehensive income	**$166**	$841	**$334**	**$969**

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

5. Property and Equipment

As at	**June 30, 2014**		December 31, 2013	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$270**	**$ -**	$270	$ -
Building	**1,824**	**131**	1,824	106
Heavy equipment	**222**	**76**	198	71
Vehicles	**1,232**	**353**	1,191	308
Furniture, fixtures and equipment	**3,905**	**2,651**	3,588	2,451
Leaseholds	**743**	**64**	428	36
	8,196	**3,275**	7,499	2,972
Less: accumulated depreciation	**(3,275)**		(2,972)	
	$4,921		$4,527	

Land and building represents the Company's ownership of a 50% interest in the land and building that its head office occupies. Under IFRS, owner-occupied property is required to be accounted for as property and equipment and not investment property. Property with a fair value of $4.2 million (December 31, 2013 - $4.2 million) is pledged as collateral against the Company's mortgages payable.

6. Loan Receivable

During Q2-2014, the Company provided a $4.0 million mezzanine loan to a third party developer for the construction of a multi-family residential property, bearing interest at prime plus 7.0% or a minimum of 10.0%, paid quarterly. Full repayment of the loan is due within 36 months from the initial advance.

7. Mortgages and Loans Payable

As at	**June 30, 2014**		December 31, 2013	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**3.85%**	**$733,806**	4.05%	$694,789
Variable rate	**4.14%**	**4,977**	4.18%	3,853
Vendor financing	**7.13%**	**333**	7.10%	488
Total		**$739,116**		$699,130
Current		**141,029**		153,589
Non-current		**598,087**		545,541
		$739,116		$699,130

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

As of June 30, 2014, unamortized deferred financing costs of $14.9 million (December 31, 2013 - $11.9 million) and mark-to-market premiums on mortgages assumed on acquisition of $1.5 million (December 31, 2013 – $1.7 million) are netted against mortgages and loans payable.

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

7. Mortgages and Loans Payable (continued)

Estimated future principal payments required to meet mortgage obligations as at June 30, 2014, are as follows:

	Principal repayments by 12 month periods ended June 30,
2015	$141,029
2016	85,978
2017	101,809
2018	82,096
2019	151,141
Subsequent	190,508
	752,561
Unamortized deferred financing costs	(14,898)
Unamortized mark-to-market adjustments	1,453
	$739,116

The Company has credit facilities set out as follows:

I. 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 for general business purposes. The interest rate on the debt is prime plus 125 basis points ("bps") on prime rate advances or 225 bps over Banker's Acceptances ("BAs"). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at June 30, 2014, the Company had assets with a fair value of $1.7 million pledged as collateral to the line and had a balance outstanding of $Nil (December 31, 2013 - $Nil).

II. 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, 2013 - $0.5 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

8. Construction Loans

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%).

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

9. Convertible Debentures

Face Interest Rate %	Effective Interest Rate %	Conversion Price	Face Amount	Maturity	June 30, 2014	December 31, 2013
5.65%	7.30%	$13.40	$57,500	November 30, 2017	**$54,746**	$54,395
5.45%	6.30%	$14.60	$46,000	June 30, 2018	**44,715**	44,576
					99,461	98,971
Less: Deferred financing charges					**(2,282)**	(2,552)
					$97,179	$96,419

Killam's $57.5 million convertible subordinated debentures are redeemable at the option of Killam 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, Killam 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). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $52.5 million and the fair value of the holders' conversion option was $5.0 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component, which is paid semiannually, is calculated at 7.3%.

Killam's $46.0 million convertible subordinated debentures are redeemable at the option of Killam 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, Killam 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). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $43.9 million and the fair value of the holders' conversion option was $2.1 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component, which is paid semiannually, is calculated at 6.3%.

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

10. Capital Stock and Contributed Surplus

Capital Stock

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

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

	2014		2013	
	Number of Shares	**Value**	Number of Shares	Value
Balance, January 1	**54,458,774**	**$398,181**	53,801,809	$391,120
Dividend reinvestment plan	**64,575**	**671**	74,715	940
Stock options exercised	**102,500**	**561**	40,083	330
Stock issued for acquisitions	**75,330**	**800**	-	-
Restricted share units redeemed	**2,733**	**32**	-	-
Balance, March 31	**54,703,912**	**$400,245**	53,916,607	$392,390
Dividend reinvestment plan	**72,539**	**746**	79,918	927
Stock options exercised	**31,250**	**260**	16,833	148
Restricted share units redeemed	**1,401**	**17**	194,774	2,390
Balance, June 30	**54,809,102**	**$401,268**	54,208,132	$395,855

Contributed Surplus

	2014	2013
Balance, January 1	**$2,302**	$2,241
Stock options expensed	**3**	17
Stock options exercised	**(67)**	(36)
Restricted share units issued	**390**	260
Restricted share units redeemed	**(32)**	-
Balance, March 31	**2,596**	2,482
Stock options expensed	**1**	11
Stock options exercised	**(31)**	(19)
Restricted share units issued	**117**	119
Restricted share units redeemed	**(23)**	-
Balance, June 30	**$2,660**	$2,593

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

11. Share-Based Compensation

Share-based compensation expense for the three and six months entered June 30, 2014 and 2013 is as follows:

	For the three months ended June 30		For the six months ended June 30	
	2014	2013	**2014**	2013
Stock option plan	**$1**	$11	**$4**	$28
Restricted share unit plan	**117**	119	**226**	219
Total share based compensation expense	**$118**	$130	**$230**	$247

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

	2014		2013	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding January 1	**550,407**	**$7.66**	694,756	$7.40
Exercised	**(102,500)**	**5.71**	(40,083)	7.36
Outstanding, March 31	**447,907**	**$8.10**	654,673	$7.40
Exercised	**(31,250)**	**$7.34**	(16,833)	7.68
Outstanding, June 30	**416,657**	**$8.16**	637,840	$7.38

The following table summarizes the stock options outstanding:

As at	**June 30, 2014**			December 31, 2013		
Exercise Price	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$5.32	-		-	97,500	0.35 years	97,500
$8.16	**416,657**	**0.90 years**	**416,657**	452,907	1.40 years	399,783
	416,657		**416,657**	550,407		497,283

The exercisable options had a weighted average exercise price of $8.16 at June 30, 2014 (December 31, 2013 - $7.60).

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

11. Share-Based Compensation (continued)

The details of the restricted share units ("RSU") issued under the RSU plan are shown below:

	2014		2013	
	Number of Shares	**Weighted Average Issue Price**	Number of Shares	Weighted Average Issue Price
Outstanding, January 1	**94,345**	**$12.34**	100,209	$11.89
Granted	**62,672**	**10.37**	31,265	12.65
Redeemed	**(2,847)**	**12.14**	-	-
Additional restricted share distributions	**1,428**	**12.25**	1,206	11.94
Outstanding, March 31	**155,598**	**$11.55**	132,680	$12.07
Granted	**5,918**	**10.56**	7,120	10.75
Forfeited	**-**	**-**	(1,003)	11.49
Redeemed	**(2,044)**	**12.68**	-	-
Additional restricted share distributions	**2,272**	**11.55**	1,626	12.07
Outstanding, June 30	**161,744**	**$11.50**	140,423	$12.00

12. Home Sales

	Three months ended June 30,		**Six months ended June 30,**	
	2014	2013	**2014**	2013
Home sales revenues	**$374**	$980	**$820**	$1,400
Cost of home sales	**(331)**	(812)	**(751)**	(1,156)
Operating expenses	**(17)**	(14)	**(33)**	(31)
Income from home sales	**$26**	$154	**$36**	$213

13. Financing Costs

	Three months ended June 30,		**Six months ended June 30,**	
	2014	2013	**2014**	2013
Mortgage, loan and construction loan interest	**$7,346**	$7,371	**$14,566**	$14,631
Amortization of fair value adjustments on assumed debt	**(124)**	(109)	**(251)**	(205)
Convertible debenture interest	**1,685**	1,684	**3,368**	3,336
Subordinated debenture interest	**-**	-	**-**	10
Capitalized interest	**(227)**	(403)	**(393)**	(877)
	$8,680	$8,543	**$17,290**	$16,895

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

14. Per Share Information

The following is the weighted average number of shares outstanding for the three and six months ended June 30, 2014 and 2013. The fully diluted amounts shown below exclude stock options whose exercise price exceeded the average market price for the period and are considered anti-dilutive.

For the three months ended June 30,	**2014**	2013
Weighted average shares outstanding - basic	**54,751,924**	54,029,158
Unexercised dilutive options	**110,901**	249,895
Restricted share units	**154,974**	133,449
Convertible debentures	**9,810,427**	7,441,730
Weighted average shares outstanding - diluted	**64,828,226**	61,854,232
For the six months ended June 30,	**2014**	2013
Weighted average shares outstanding - basic	**54,679,256**	53,952,239
Unexercised dilutive options	**142,134**	263,554
Restricted share units	**136,749**	121,980
Convertible debentures	**9,810,427**	7,441,730
Weighted average shares outstanding - diluted	**64,768,566**	61,779,503

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

For the three months ended June 30,	**2014**	2013
Net income applicable to common shareholders	**$13,671**	$23,238
Adjustment for dilutive effect of convertible debentures	**1,180**	1,179
Adjusted net income for diluted per share amounts	**$14,851**	$24,417
For the six months ended June 30,	**2014**	2013
Net income applicable to common shareholders	**18,540**	$32,206
Adjustment for dilutive effect of convertible debentures	**2,357**	2,335
Adjusted net income for diluted per share amounts	**$20,897**	$34,541

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

15. Segmented Information

The Company operates in two rental segments of the multi-family residential industry: apartments and MHCs, all located in Canada. The accounting policies of these segments are the same as those described in the summary of significant accounting policies. The segments are analyzed based on net operating income before interest, amortization and administration costs. The operating results, assets and liabilities, and capital expenditures of the segments are as follows:

For the three months ended June 30, 2014	Apartments	MHCs	Other	Total
Property revenue	$32,844	$3,530	$144	$36,518
Property operating expenses	(13,682)	(1,308)	(87)	(15,077)
Net rental income	$19,162	$2,222	$57	$21,441
Home sales, equity income & corporate income	-	-	397	397
Financing costs	(6,484)	(645)	(1,551)	(8,680)
Depreciation and amortization	(239)	(36)	(297)	(572)
Administration	(414)	(102)	(1,769)	(2,285)
Income before fair value gains, gain on disposition and income taxes	$12,025	$1,439	$(3,163)	$10,301
Capital expenditures on investment properties	$6,338	$524	$5	$6,867

For the three month ended June 30, 2013	Apartments	MHCs	Other	Total
Property revenue	$29,472	$4,927	$107	$34,506
Property operating expenses	(12,322)	(1,892)	(67)	(14,281)
Net rental income	$17,150	$3,035	$40	$20,225
Home sales, equity income & corporate income	-	-	1,185	1,185
Financing costs	(5,993)	(1,046)	(1,504)	(8,543)
Depreciation and amortization	(229)	(65)	(253)	(547)
Administration	(385)	(86)	(1,469)	(1,940)
Income before fair value gains, and income taxes	$10,543	$1,838	$(2,001)	$10,380
Capital expenditures on investment properties	$3,776	$1,053	$11	$4,840

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

15. Segmented Information (continued)

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

For the six months ended June 30, 2013	Apartments	MHCs	Other	Total
Property revenue	$58,278	$9,209	$271	$67,758
Property operating expenses	(25,570)	(3,653)	(141)	(29,364)
Net rental income	$32,708	$5,556	$130	$38,394
Home sales, equity income & corporate income	-	-	1,606	1,606
Financing costs	(11,773)	(2,199)	(2,923)	(16,895)
Depreciation and amortization	(449)	(126)	(498)	(1,073)
Administration	(691)	(177)	(2,767)	(3,635)
Income before fair value gains, loss on disposition and income taxes	$19,795	$3,054	$(4,452)	$18,397
Capital expenditures on investment properties	$6,406	$1,766	$11	$8,183

As at		**June 30, 2014**		
	Apartments	**MHCs**	**Other**	**Total**
Total assets	**$1,439,524**	**$136,993**	**$16,191**	**$1,592,708**
Total liabilities	**$725,747**	**$53,617**	**$203,155**	**$982,519**

As at		December 31, 2013		
	Apartments	MHCs	Other	Total
Total assets	$1,386,826	$134,760	$10,845	$1,532,431
Total liabilities	$676,072	$53,326	$198,973	$928,371

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

15. Segmented Information (continued)

The apartment segment is further analyzed on property revenue, property operating expenses and fair value of investment property by region:

As at and for the three months ended June 30, 2014	**Property Revenue**	**Property Operating Expenses**	**Net Operating Income**	**Fair Value of Investment Properties**
Halifax, NS	**$13,878**	**$(5,323)**	**$8,555**	**$630,497**
Moncton, NB	**3,970**	**(1,946)**	**2,024**	**137,734**
Fredericton, NB	**3,421**	**(1,643)**	**1,778**	**142,936**
Saint John, NB	**2,470**	**(1,359)**	**1,111**	**71,004**
St. John's, NL	**2,069**	**(612)**	**1,457**	**103,726**
Charlottetown, PE	**2,297**	**(948)**	**1,349**	**92,076**
Ontario	**3,599**	**(1,379)**	**2,220**	**172,025**
Other Atlantic	**1,140**	**(472)**	**668**	**41,341**
	$32,844	**$(13,682)**	**$19,162**	**$1,391,339**

As at and for the three months ended June 30, 2013	Property Revenue	Property Operating Expenses	Net Operating Income	Fair Value of Investment Properties
Halifax, NS	$13,343	$(5,085)	$8,258	$596,203
Moncton, NB	3,414	(1,710)	1,704	130,674
Fredericton, NB	3,160	(1,409)	1,751	130,353
Saint John, NB	2,359	(1,336)	1,023	71,136
St. John's, NL	1,839	(563)	1,276	106,360
Charlottetown, PE	1,963	(827)	1,136	98,258
Ontario	2,357	(936)	1,421	120,454
Other Atlantic	1,037	(456)	581	26,212
	$29,472	$(12,322)	$17,150	$1,279,650

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

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

15. Segmented Information (continued)

For the six months ended June 30, 2014	**Property Revenue**	**Property Operating Expenses**	**Net Operating Income**
Halifax, NS	**$27,399**	**$(11,518)**	**$15,881**
Moncton, NB	**7,856**	**(4,137)**	**3,719**
Fredericton, NB	**6,815**	**(3,572)**	**3,243**
Saint John, NB	**4,915**	**(3,268)**	**1,647**
St. John's, NL	**4,124**	**(1,340)**	**2,784**
Charlottetown, PE	**4,583**	**(2,141)**	**2,442**
Ontario	**6,893**	**(2,822)**	**4,071**
Other Atlantic	**2,279**	**(1,062)**	**1,217**
	$64,864	**$(29,860)**	**$35,004**

For the six months ended June 30, 2013	Property Revenue	Property Operating Expenses	Net Operating Income
Halifax, NS	$26,516	$(10,677)	$15,839
Moncton, NB	6,764	(3,521)	3,243
Fredericton, NB	6,361	(2,961)	3,400
Saint John, NB	4,743	(2,817)	1,926
St. John's, NL	3,570	(1,186)	2,384
Charlottetown, PE	3,647	(1,716)	1,931
Ontario	4,614	(1,734)	2,880
Other Atlantic	2,063	(958)	1,105
	$58,278	$(25,570)	$32,708

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

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

16. Supplemental Cash Flow Information

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Net income items related to investing and financing activities				
Interest paid on mortgages payable and other	**$7,186**	$7,197	**$14,300**	$14,229
Interest paid on convertible debentures	**1,748**	2,878	**1,748**	2,878
Interest paid on subordinated debentures	**-**	-	**-**	8
	$8,934	$10,075	**$16,048**	$17,115
Changes in non-cash operating assets and liabilities				
Rent and other receivables	**$690**	$(791)	**$53**	$4
Income tax receivable	**(1,450)**	36	**(1,450)**	36
Inventory	**63**	(13)	**229**	(38)
Other current assets	**(2,827)**	(4,026)	**(6,474)**	(6,131)
Accounts payable and other liabilities	**(3,863)**	3,778	**2,573**	4,454
	$(7,387)	$(1,016)	**$(5,069)**	$(1,675)

17. Financial Instruments

The Company entered into a fixed forward interest rate swap contract to partially hedge the exposure to changes in future borrowing rates related to two anticipated mortgage refinancings. The interest rate swap contract was designated as a cash flow hedge on March 7, 2014. The effective date of the hedge is October 1, 2014, and the agreement will continue to be designated as such until October 1, 2019. 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. Any gain or loss on the settled hedge will be amortized into net income through financing costs over the term of the hedged item.

The Company has designated this derivative as a cash flow hedge for accounting purposes in accordance with IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) and has determined that the derivative is highly effective in offsetting expected changes in cash flows related to mortgage refinancings. The effectiveness of the hedging relationship was assessed at the inception of the contract and will be reviewed on a quarterly basis and measured at fair value. The fair value of the derivative instrument is determined by reference to both observable and unobservable inputs. The Company has recorded the effective portion of changes in fair value of the derivative in other comprehensive loss ("OCL"). There was no ineffective proportion of the change in fair value of the derivative recorded in net income during the period.

As at June 30, 2014, the forward interest rate swap agreement was reassessed as an effective hedge. For the three and six months ended June 30, 2014, a net unrealized loss of $107 thousand and $169 thousand was recognized in OCL for the fair value change of the derivative. The liability is recorded in accounts payable and accrued liabilities on the balance sheet.

18. Financial Risk Management Objectives and Policies

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

The Company may also enter into derivative transactions, primarily interest rate swap contracts to manage interest rate risk arising from fluctuations in the bond yield, as well as natural gas and oil swap contracts to manage price risk arising from fluctuations in these commodities. The Company entered into one derivative contract during Q1-2014 and did not enter into any derivative transactions in 2013. It is, and has been, the Company's policy that no speculative trading in derivatives shall be undertaken.

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

(i) Interest rate risk

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

As at June 30, 2014, no mortgages or vendor debt had floating interest rates except for five demand loans totaling $4.8 million. These loans have an interest rate of prime plus 1.0% - 2.0% (December 31, 2013 - prime plus 1.0% - 2.0%). Killam also has three construction loans totalling $20.2 million with a floating interest rate ranging from prime to prime plus 1.0% and consequently, Killam is exposed to short-term interest rate risk on these loans.

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 $141.0 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.

A 25 basis point change in the fixed forward interest rate hedge related to two of Killam's mortgages at June 30, 2014, would affect OCL by $0.1 million.

(ii) Credit risk

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

(iii) Liquidity risk

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

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

18. Financial Risk Management Objectives and Policies (continued)

During the three and six months ended June 30, 2014, the Company refinanced $32.9 million and $69.6 million of maturing apartment mortgages with new mortgages totaling $41.4 million and $94.3 million for net proceeds of $8.5 million and $24.7 million. As well, during the three and six months ended June 30, 2014, the Company refinanced $1.0 million of a maturing MHC mortgage for net proceeds of $Nil.

The following table presents the contractual maturities of the Company's liabilities over the next five years:

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**

Capital Management

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

The Company monitors capital using a total debt to total assets ratio. The Company's strategy is to maintain its total debt to total assets ratio between 55-65%. The calculation of the total debt to total assets is summarized as follows:

As at	**June 30, 2014**	December 31, 2013
Mortgages, loans payables and construction loans	**$759,284**	$713,905
Convertible debentures	**97,179**	96,419
Total debt	**$856,463**	$810,324
Total assets	**$1,592,708**	$1,532,431
Total debt as a percentage of total assets	**53.8%**	52.9%

The above calculation 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 as at June 30, 2014, would increase the debt as a percentage of assets by 80 bps.

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

18. Financial Risk Management Objectives and Policies (continued)

Fair Value Measurement

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

		June 30, 2014		December 31, 2013	
Classification	**Subsequent Measurement**	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Other Financial Liabilities:					
Mortgages (b)	Amortized cost	**$739,116**	**$791,501**	$699,130	$748,806
Convertible debentures (a)	Amortized cost	**$97,179**	**$103,032**	$96,419	$100,461
Derivative Liability:					
Forward interest rate hedge (c)	Fair value	**$239**	**$239**	$ -	$ -

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

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

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

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

As at	**June 30, 2014**	December 31, 2013
Mortgages - Apartments	**2.33%**	2.60%
Mortgages - MHCs	**4.13%**	4.45%

(c) The valuation of the forward interest rate hedge is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. The fair value is determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The Company considers the impact of credit valuation adjustments to reflect both its risk and the counterparty's risk in the fair value measurement of the forward interest rate hedge agreement (level 2).

As at June 30, 2014, the Company did not have any financial assets or liabilities measured at fair value, except for the forward interest rate hedge, on the condensed consolidated statements of financial position.

19. Related Party Transactions

Killam has contracted APM Construction Services Inc. (“APM”) to act as Project Manager on the new construction project in St. John's, NL. APM was previously the Project Manager on The Plaza, which was completed in May 2013. APM is an entity controlled by a director of Killam. APM will be paid an industry standard management fee of approximately 4% of the construction costs. For the three and six months ended June 30, 2014, Killam paid APM $0.1 million and $0.2 million for construction management services (June 30, 2013 - $0.1 million and $0.2 million).

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a Company controlled by an executive and director of Killam. In addition, the property manager for the commercial complex is controlled by the executive and director and is paid an industry standard property management fee.

20. 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.