Management's Discussion & Analysis

Dollar amounts in thousands (except as noted)

TABLE OF CONTENTS

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 unaudited condensed 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, 2012, and 2011. The consolidated financial statements for the years ended December 31, 2012, and 2011 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 2012 Annual Information Form, are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at November 5, 2013.

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 and depreciation on owner-occupied property, less fair value gains, gain on disposition and non-controlling interest. Killam's definition of FFO is calculated in accordance with the REALpac definition.
- 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 2013 and 2012 (91% of the portfolio based on September 30, 2013 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

Key Performance Indicators (KPIs)

Management measures Killam's performance based on the following key performance indicators (KPI):

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 of properties that it has owned for equivalent periods year-over-year, 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 remains at a conservative level.
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.

Business Overview

Killam Properties Inc., based in Halifax, Nova Scotia, is one of Canada's largest residential landlords, owning, operating, managing and developing multi-family residential and Manufactured Home Community ("MHC") properties. Killam's 162 apartment properties are located in Atlantic Canada's six largest urban centres and in Ontario. The Company's 44 MHCs are located in Ontario and Atlantic Canada. The value of Killam's real estate assets at September 30, 2013, 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, including Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown. Killam is now Atlantic Canada's largest residential landlord, with a 14% market share of the multi-family rental units in these core markets. Killam entered the Ontario apartment market in 2010, and today owns twelve 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. The apartment business is Killam's largest business segment, accounting for 85% of the Company's NOI from property operations and equity income in the first nine months of 2013. At September 30, 2013, Killam's apartment portfolio consisted of 12,528 units.

Killam has been complementing its acquisition program with the construction of apartment buildings since 2010 with the Company's first development project completed in 2011. Killam completed four additional development projects, totaling 282 units, in the first half of 2013.

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. With 44 communities, Killam owns one of the largest portfolios of MHCs of any publicly traded company. The MHC business accounted for 15% of Killam's NOI and equity income in the first nine months of 2013.

Management's Discussion & Analysis

Dollar amounts in thousands (except as noted)

Financial and Operational Highlights

The following table presents a summary of Killam's financial and operating performance for the three and nine months ended September 30, 2013 and 2012:

Results of Operations

	Three months ended September 30,			Nine months ended September 30,		
	2013	2012	Change	**2013**	2012	Change
Property revenue	**$37,095**	$33,894	9.4%	**$104,853**	$100,281	4.6%
NOI	**$23,250**	$21,442	8.4%	**$61,644**	$60,885	1.2%
Income before fair value gains, gain (loss) on disposition and income taxes	**$11,864**	$10,957	8.3%	**$30,261**	$28,077	7.8%
Net income applicable to common shareholders	**$12,117**	$12,662	(4.3)%	**$44,323**	$41,302	7.3%
Earnings per share (basic)	**$0.22**	$0.25	(12.0)%	**$0.82**	$0.83	(1.2)%
FFO	**$11,668**	$10,721	8.8%	**$28,958**	$27,364	5.8%
FFO per share (basic)	**$0.22**	$0.21	4.8%	**$0.54**	$0.55	(1.8)%
FFO per share (diluted)	**$0.21**	$0.21	-%	**$0.53**	$0.54	(1.9)%

Same Store Results

	Three months ended September 30,			Nine months ended September 30,		
	2013	2012	Change	**2013**	2012	Change
Same store revenue	**$32,568**	$32,195	1.2%	**$94,963**	$93,236	1.9%
Same store expenses	**(12,131)**	(12,017)	0.9%	**(39,131)**	(37,388)	4.7%
Same store NOI	**$20,437**	$20,178	1.3%	**$55,832**	$55,848	-%

Balance Sheet

	As at September 30, 2013	As at December 31, 2012	Change
Investment properties	**$1,530,066**	$1,354,665	12.9%
Total assets	**$1,574,949**	$1,443,128	9.1%
Total liabilities	**$959,374**	$854,692	12.2%
Total equity	**$615,575**	$588,436	4.6%

Ratios

	As at September 30, 2013	As at December 31, 2012	Change
Total debt to total assets	**53.2%**	51.6%	160 bps
Weighted average mortgage interest rate	**4.21%**	4.48%	(27) bps
Weighted average years to maturity	**3.8**	3.4	0.4 years
Interest coverage (rolling twelve months)	**2.17x**	2.09x	3.8%
Debt service coverage (rolling twelve months)	**1.38x**	1.35x	2.2%

Summary of Q3-2013 Results and Operations

Positive FFO per share growth

Killam generated FFO per share of $0.22 during Q3 2013, compared to $0.21 during Q3 2012. The increase in FFO per share is primarily driven by NOI from recent acquisitions, an increase in same store property net operating income and a reduction in same store interest expense. This growth was partially offset by a 7.8% increase in the weighted average shares outstanding following the December 2012 equity raise.

Consolidated Same Store Growth of 1.3%

Killam’s same store portfolio posted a 1.3% increase in NOI quarter-over-quarter. Property revenues increased 1.2% due to increased rental rates despite continued oversupply in some key markets. Total operating expenses only increased 0.9% compared to Q3 2012, as a 1.0% reduction in general operating expenditures offset regular increases in utility costs and property taxes. The Halifax market, which comprises approximately 50% of the Company’s same store apartment NOI contributed to the growth, posting a 2.4% increase in same store NOI quarter-over-quarter, driven by a 2.3% increase in residential rents and only a 0.6% increase in property operating expenses. The improved top line growth in Halifax reflects the marketing and leasing changes implemented during the quarter and the quality and location of the Company's portfolio. Growth in Halifax offset the markets of Saint John, Charlottetown and Fredericton which saw decreased NOI in Q3 due to higher vacancy. Improved occupancy levels in September in these markets are expected to improve occupancy in Q4 and into 2014.

Occupancy Gains During the Third Quarter

At September 30, 2013, Killam achieved occupancy levels within the stabilized apartment portfolio of 97.1%, a 20 basis points ("bps") increase over September 2012 and a 310 bps increase from June 2013. The most significant occupancy gains occurred in the month of September; therefore, the Company expects to see the full benefit of the increased leasing activity during the fourth quarter. Although there continues to be market pressure as a result of short term oversupply, especially in Halifax and Moncton as well as continued weakening in the Saint John economy, the Company was able to grow rents and reduce vacancy though the use of rental incentives, additional leasing representatives and targeted marketing campaigns.

Growth Through Strategic Acquisitions

During Q3 2013 the Company acquired 1033 Queen Street West located in Toronto, a newly constructed, 8-storey, mixed-use complex containing 21,242 square feet of street level retail (TD Bank, Shoppers Drug Mart and Tim Hortons) and 179 apartment units. The building includes 121 underground parking stalls and is on leased land with a 50-year lease term. The purchase price of $40 million represents a capitalization rate of 5.5% and was satisfied with a combination of a new fixed mortgage, a vendor take-back mortgage and cash on hand. During the quarter the Company also acquired a 50% interest in a development site at 1057 Barrington Street, located in downtown Halifax for $1.8M. The project will contain 73 condo units which will be sold by Killam's partner and 70 residential apartment units which will be owner-managed by Killam. Construction of this project is expected to start in mid-2014.

Record Low Interest Rates

During the quarter the Company continued to reduce its weighted average interest rate on mortgage debt through refinancings. During Q3 2013, Killam successfully refinanced $10.6 million of maturing apartment mortgages at a weighted average interest rate of 3.49%, 156 basis points lower than the weighted average interest rate prior to refinancing. This included two 10-year term mortgages, as well as one 5-year term mortgage. The Company refinanced $2.1 million of MHC mortgages at a weighted average interest rate of 4.72%, 118 basis points lower than the weighted average interest rate of 5.90% prior to refinancing. The Company also secured a $26.0 million mortgage on a newly acquired property for a 5-year term at 3.65% and also placed permanent financing of $10.3 million and $9.7 million on recently completed development projects in St. John’s and Halifax at rates of 3.93% and 3.54% for 10 years.

Outlook

Although the first half of 2013 was challenging from an occupancy standpoint, Killam achieved improvements in occupancy levels across its entire portfolio by the end of September 2013. Occupancy levels at the end of October have remained consistent with those achieved at the end of the third quarter at 97.0% for stabilized properties in the apartment portfolio, up from 96.5% at October 31, 2012. The Company expects stronger year-over-year occupancy to continue in the range of 95.5% - 97.0% through the remainder of the year and into 2014. In order to maintain these occupancy levels the Company expects to continue offering tenant rental incentives, develop and launch leading edge marketing campaigns, and to continue expanding its leasing programs and staff training.

Killam expects to see positive same store growth for 2013, in line with revised expectations of 0%-1% (revised with the release of the Q2 2013 results), given the fact the Company achieved positive same store growth during the third quarter and is experiencing improved occupancy levels into Q4. Operating savings are expected to be achieved across the same store portfolio during the fourth quarter.

Killam also expects to see fourth quarter FFO growth from NOI related to recent acquisitions completed in 2013 as well as a positive bottom line impact from the lease-up of recently completed development projects and continued savings from lower interest rates.

Dollar amounts in thousands (except as noted)

Apartments Portfolio

The following table summarizes Killam's apartment portfolio by market as at and for the nine months ended September 30, 2013:

Apartment Properties

	Units(1)	Number of Properties	% of Apartment NOI and Equity Income
Nova Scotia			
Halifax(2)	4,970	54	47.6%
Sydney	139	2	1.2%
	5,109	56	48.8%
New Brunswick			
Moncton	1,512	29	9.8%
Fredericton	1,394	20	9.9%
Saint John	1,143	13	5.8%
Miramichi	96	1	0.8%
	4,145	63	26.3%
Ontario(3)			
Ottawa	492	6	2.6%
London	264	2	2.9%
Cambridge	225	2	3.3%
Toronto	378	2	1.0%
	1,359	12	9.8%
Newfoundland			
St. John's	813	11	7.3%
Grand Falls	148	2	1.1%
	961	13	8.4%
Prince Edward Island			
Charlottetown	906	17	6.4%
Summerside	48	1	0.3%
	954	18	6.7%
Total	**12,528**	**162**	**100.0%**

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

(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 nine months ended September 30, 2013:

	Sites	Number of Communities	% of MHC NOI
Nova Scotia	2,561	15	31.5%
New Brunswick	2,532	11	36.4%
Ontario	2,144	16	30.0%
Newfoundland	170	2	2.1%
Total	**7,407**	**44**	**100.0%**

Dollar amounts in thousands (except as noted)

Performance Compared to 2013 Key Objectives

Consolidation of Multi-family Residential Real Estate Market	
2013 Target	Complete approximately $75-$125 million in acquisitions.
2013 Performance	Killam has completed $99.2 million in apartment acquisitions, representing 624 units as at September 30, 2013 and has also acquired $6.9 million in vacant land for future development. The expectation is that the Company will continue to complete acquisitions in the fourth quarter as accretive opportunities arise.

Increase Investment in New Properties	
2013 Target	Focus on newer properties as part of the acquisition program in 2013. Complete and lease-up Killam's four developments, and commence two new development projects.
2013 Performance	During the first nine months of 2013 Killam acquired a newly constructed 83-unit luxury building in Halifax, a newly constructed 48-unit building in Moncton, a portfolio of properties in Charlottetown built between 2005-2012 totaling 172 units, as well as a 179-unit newly constructed building in Toronto. The Company also completed the construction of four development projects totaling 282 units during the first half of the year. These buildings were ready for occupancy at the beginning of May 2013 with lease-up periods varying by region. Bennett House and Brighton House are fully leased while the S2 and The Plaza are 59% and 53% leased. Both properties are expected to be fully occupied within 12 months of opening. Killam has also committed to two new development projects located in St. John’s and Cambridge. Development has commenced on the St. John’s project and the Cambridge project is expected to start in the fourth quarter. Please refer to the Developments section of the MD&A on page 24 for further details on these projects.

Geographic Diversification	
2013 Target	2013 acquisition program to include investments in Ontario.
2013 Performance	During the first nine months of 2013 Killam acquired Kristin Way, a 102-unit building located in Ottawa, and 1033 Queen Street West in Toronto. These acquisitions increase Killam's total unit count in Ontario to 1,359 or 11% of the total apartment portfolio. Killam has continued to expand its operating platform in Ontario by adding property managers, dedicated leasing representatives and administrative staff to manage the growing portfolio.

Growth in Same Store Net Operating Income	
2013 Target	Same Store NOI growth of 0% to 1% (adjusted from 2% to 4% following Q2 2013).
2013 Performance	Consolidated same store NOI grew by 1.3% in the third quarter of 2013 and is flat year-to-date. The results year-to-date are driven by an increase in natural gas prices in Atlantic Canada during the peak heating season, resulting in a 14% and 17% increase in utility and fuel expenses compared to the same periods in 2012. Higher top line growth has helped to offset the impact of higher utility costs. Management expects to meet its adjusted same store NOI target of 0% to 1% and to post positive same store NOI growth in Q4.

Management's Discussion & Analysis

Dollar amounts in thousands (except as noted)

PART III

Q3-2013 Financial Overview

Consolidated Results

For the three months ended September 30,

	Total Portfolio			Same Store			Non Same Store		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Property revenue	**$37,095**	$33,894	9.4%	**$32,568**	$32,195	1.2%	**$4,527**	$1,699	166.5%
Property expenses									
Operating expenses	**(6,399)**	(5,808)	10.2%	**(5,621)**	(5,676)	(1.0)%	**(778)**	(132)	489.4%
Utility and fuel expenses	**(3,375)**	(3,024)	11.6%	**(2,993)**	(2,898)	3.3%	**(382)**	(126)	203.2%
Property taxes	**(4,071)**	(3,620)	12.5%	**(3,517)**	(3,443)	2.1%	**(554)**	(177)	213.0%
Total property expenses	**(13,845)**	(12,452)	11.2%	**(12,131)**	(12,017)	0.9%	**(1,714)**	(435)	294.0%
NOI	**$23,250**	$21,442	8.4%	**$20,437**	$20,178	1.3%	**$2,813**	$1,264	122.5%
Operating margin	**62.7%**	63.3%	(0.9)%	**62.8%**	62.7%	0.2%	**62.1%**	74.4%	(16.5)%

For the nine months ended September 30,

	Total Portfolio			Same Store			Non Same Store		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Property revenue	**$104,853**	$100,281	4.6%	**$94,963**	$93,236	1.9%	**$9,890**	$7,045	40.4%
Property expenses									
Operating expenses	**(18,015)**	(16,876)	6.7%	**(16,259)**	(16,103)	1.0%	**(1,756)**	(773)	127.2%
Utility and fuel expenses	**(13,366)**	(11,612)	15.1%	**(12,232)**	(10,888)	12.3%	**(1,134)**	(724)	56.6%
Property taxes	**(11,828)**	(10,908)	8.4%	**(10,640)**	(10,397)	2.3%	**(1,188)**	(511)	132.5%
Total property expenses	**(43,209)**	(39,396)	9.7%	**(39,131)**	(37,388)	4.7%	**(4,078)**	(2,008)	103.1%
NOI	**$61,644**	$60,885	1.2%	**$55,832**	$55,848	-%	**$5,812**	$5,037	15.4%
Operating margin	**58.8%**	60.7%	(3.1)%	**58.8%**	59.9%	(1.8)%	**58.8%**	71.5%	(17.8)%

Total property revenue for the three and nine months ended September 30, 2013, excluding the properties held through the Company's joint ventures, was $37.1 million and $104.9 million. This translates into a 9.4% and 4.6% increase in revenue over the same periods in 2012, generated through revenue from acquisitions, developments and increased rental rates, partially offset by increased vacancy.

Killam's total property operating expenses have increased 11.2% and 9.7% for the same three and nine month periods of 2013 compared to 2012, decreasing the operating margins by 60 bps and 190 bps, during the quarter and year-to-date. The overall decrease in the operating margin can be attributed to higher utility costs, and the new acquisitions and developments in the lease-up phase that are not yet stabilized during 2013.

Same store property NOI reflects the 182 stabilized properties that Killam has owned for equivalent periods in 2013 and 2012. The same store analysis includes 18,156, or 91% of Killam's portfolio. Home sales are excluded from the analysis. Same store properties realized growth in the third quarter of 2013 with a 1.3% increase in NOI. This increase in NOI is a result of a 1.2% increase in net revenue quarter-over-quarter, partially offset by a 0.9% increase in operating expenses.

These variances are discussed in more detail in the Apartment and MHC sections of the MD&A.

Non same store consists of properties acquired in both 2012 and 2013, MHC properties sold in 2012, completed development projects, other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items. Details of properties acquired in 2013 are found on page 24.

Dollar amounts in thousands (except as noted)

Apartment Results

For the three months ended September 30,

	Total Portfolio			Same Store			Non Same Store		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Property revenue	**$31,043**	$27,878	11.4%	**$26,651**	$26,375	1.0%	**$4,392**	$1,503	192.2%
Property expenses									
Operating expenses	**(5,173)**	(4,550)	13.7%	**(4,434)**	(4,363)	1.6%	**(739)**	(187)	295.2%
Utility and fuel expenses	**(2,749)**	(2,400)	14.5%	**(2,374)**	(2,281)	4.1%	**(375)**	(119)	215.1%
Property taxes	**(3,795)**	(3,355)	13.1%	**(3,270)**	(3,200)	2.2%	**(525)**	(155)	238.7%
Total property expenses	**(11,717)**	(10,305)	13.7%	**(10,078)**	(9,844)	2.4%	**(1,639)**	(461)	255.5%
NOI	**$19,326**	$17,573	10.0%	**$16,573**	$16,531	0.3%	**$2,753**	$1,042	164.2%
Operating margin	**62.3%**	63.0%	(1.1)%	**62.2%**	62.7%	(0.8)%	**62.7%**	69.3%	(9.5)%

For the nine months ended September 30,

	Total Portfolio			Same Store			Non Same Store		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Property revenue	**$89,322**	$81,808	9.2%	**$79,734**	$78,388	1.7%	**$9,588**	$3,420	180.4%
Property expenses									
Operating expenses	**(14,576)**	(13,218)	10.3%	**(12,931)**	(12,759)	1.3%	**(1,645)**	(459)	258.4%
Utility and fuel expenses	**(11,709)**	(9,688)	20.9%	**(10,600)**	(9,307)	13.9%	**(1,109)**	(381)	191.1%
Property taxes	**(11,001)**	(10,001)	10.0%	**(9,894)**	(9,662)	2.4%	**(1,107)**	(339)	226.5%
Total property expenses	**(37,286)**	(32,907)	13.3%	**(33,425)**	(31,728)	5.3%	**(3,861)**	(1,179)	227.5%
NOI	**$52,036**	$48,901	6.4%	**$46,309**	$46,660	(0.8)%	**$5,727**	$2,241	155.6%
Operating margin	**58.3%**	59.8%	(2.5)%	**58.1%**	59.5%	(2.4)%	**59.7%**	65.5%	(8.9)%

Apartment Property Revenue

Total apartment property revenue for the three and nine months ended September 30, 2013, is $31.0 million and $89.3 million, an 11.4% and 9.2% increase over the same periods in 2012. This growth is attributable to acquisitions and the completion of the developments.

Same store apartment net revenue increased 1.0% and 1.7% for the three and nine months ended September 30, 2013, following increased rental rates of 2.0% and 2.6%. Killam realized higher occupancy in September 2013 compared to September 2012 in its stabilized portfolio, as shown in the following occupancy chart. However vacancy was higher in 2013 in both the third quarter and the first nine months of the year due to higher than average vacancy levels in the first eight months of the year.

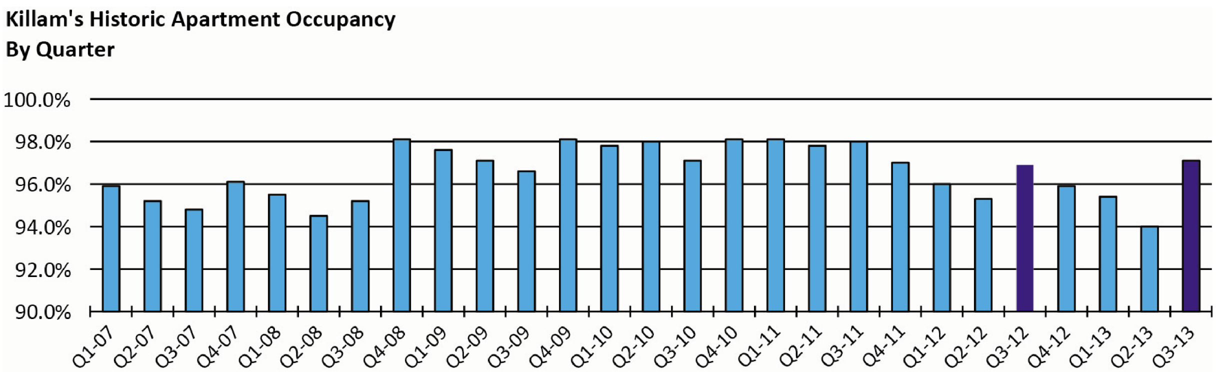
Based on current rents, an annualized 1% change in apartment vacancy rates would impact the annualized rental revenue by $1.3 million.

Dollar amounts in thousands (except as noted)

Apartment Occupancy by Core Market

	September 30, 2013			September 30, 2012				
	Units	**Occupancy(1)**	**Average Rent**	Units	Occupancy(1)	Average Rent	Change Occ. (Bps)	% Change Avg Rent
Halifax, NS	**4,970**	**97.9%**	**$919**	4,821	97.7%	$883	20 bps	4.1%
Moncton, NB	**1,512**	**96.6%**	**824**	1,424	96.8%	796	(20) bps	3.5%
Fredericton,NB	**1,394**	**97.3%**	**896**	1,293	98.1%	846	(80) bps	5.9%
Saint John, NB	**1,143**	**92.1%**	**749**	1,143	94.1%	744	(200) bps	0.7%
St. John's, NL	**813**	**99.1%**	**845**	742	97.8%	767	130 bps	10.2%
Charlottetown, PE	**906**	**97.2%**	**877**	687	95.9%	869	130 bps	0.9%
Ontario	**1,359**	**97.4%**	**1,245**	1,078	95.5%	1,320	190 bps	(5.7)%
Other Atlantic	**431**	**97.0%**	**789**	448	96.2%	774	80 bps	1.9%
Total Apartments (weighted average)	**12,528**	**97.1%**	**$913**	11,636	96.9%	$883	20 bps	3.4%

(1) Includes all stabilized properties.



Killam’s apartment units were 97.1% occupied at September 30, 2013, up 310 basis points from 94.0% at June 30, 2013, and up 20 basis points from 96.9% at September 30, 2012. The fall is typically Killam’s strongest season for occupancy. Occupancy has remained strong in October, with the apartment portfolio at 97.0% occupancy at October 31, 2013, up 50 basis points from 96.5% at October 31, 2012.

As the graph above highlights, the apartment portfolio has experienced vacancy pressure over the last two years due primarily to higher than normal levels of new multi-family rental construction in Halifax, Moncton, and Charlottetown, and softness in the Saint John economy. Increased marketing and leasing initiatives to offset this trend have been a focus for the Company over the last two quarters and Management is pleased with the occupancy improvements realized during the third quarter and into the early part of Q4. The Company increased the number of leasing agents, expanded its marketing program, including a successful radio campaign and increased incentive offerings at specific properties. Additional programs and initiatives are being rolled out during the fourth quarter, including programs focused on tenant retention. The expanded leasing process is expected to enable Killam to continue to outperform CMHC reported averages in its core markets.

Halifax, representing 40% of Killam’s apartment portfolio by unit count, ended the quarter at 97.9% occupancy, compared to 97.7% at September 30, 2012. Competition has increased in Halifax due to new rental supply, with rental construction levels above the ten-year annual average of 800 units per year, for the last three years, including apartment starts of 1,043, 1,724 and 1,437 in 2010, 2011 and 2012, respectively (as reported by CMHC). CMHC expects new starts to stay above the 10-year norm into 2014 and 2015. Offsetting the new supply is population growth in Halifax and increasing demand for rental units from an aging population that is transitioning away from home ownership and into the rental market. The population of Halifax grew by 4.7% from 2006 to 2011, as reported by Statistics Canada. Despite increased rental supply in the City, Killam continues to achieve rental rate growth, with average rents for same store properties located in Halifax increasing 2.0% over the last year, and total same store revenue up 1.7% year-over-year.

The improved top line growth in Halifax reflects the marketing and leasing changes noted on the previous page, and the quality and location of Killam’s apartment portfolio.

Looking to 2014 and beyond, population growth, fuelled in part by the start of the $25 billion, 25-year, Irving Shipbuilding Contract, is predicted to increase demand for rental product, absorbing the new supply. In addition, Nova Scotia's offshore oil industry has potential for growth with BP Exploration Canada ("BP") and Shell both launching seismic surveys off the Province's coast. In 2012 BP was awarded the right to explore four parcels of Nova Scotia's offshore, committing to spend $1.0 billion in work expenditures and Shell committed to spend a total of $1.0 billion for another eight parcels. This exploration activity off the coast of Nova Scotia has the potential to significantly increase job opportunities in the region and drive population growth in future years.

As noted in previous quarters, New Brunswick's rental market has experienced softness over the last year. As CMHC reported in its Spring 2013 Rental Market Report, the overall vacancy for the Province's urban centres was 7.6% in April 2013, 140 basis points higher than in April 2012. CMHC reported Fredericton as the strongest of the larger centres in New Brunswick, with 5.2% vacancy (compared to 3.8% in April 2012), while the weakest market is Saint John, with 10.4% vacancy in spring 2013 compared to 8.4% in 2012. CMHC reported Moncton with 7.4% vacancy, compared to 5.0% a year earlier, with new supply to the market contributing to the vacancy rise.

Killam has responded to the increased competition in New Brunswick by expanding marketing programs and rental incentives. These incentives include offering one-month free rent on some new leases, allowing for early move-ins or including electricity in the rental rates where this is becoming the norm (most notably in Moncton). Enhanced training of leasing representatives in each of the New Brunswick cities has improved the leasing process for prospective tenants and contributed to increased leasing activity in the summer months.

Despite a more challenging rental market in 2013 Killam achieved occupancy gains in all three New Brunswick markets in Q3 2013 compared to Q2 2013. Fredericton achieved the strongest occupancy at September 30, 2013, with 97.3%, up 400 basis points from June 2013. This compares with 98.1% at September 2012. Occupancy has continued to improve in October 2013, with Fredericton ending the month at 97.6% occupancy, only 20 basis points off its October 2012 occupancy.

The Moncton portfolio was 96.6% occupied at September 30, 2013, up 360 basis points from 93.0% at June 30, 2013. Year-over-year Moncton occupancy was off 20 basis points at the end of the third quarter. Occupancy has remained strong in October at 97.2%, surpassing October 2012 levels by 70 basis points. Saint John remains the softest market in New Brunswick due to slow economic growth, however occupancy increased by 180 basis points in the quarter to 92.1% and continued to increase in October with a 90 bps improvement, ending October at 93.0% occupancy. Management is targeting occupancy of 92% to 94% in Saint John over the next 12 months, which is ahead of CMHC targets.

Killam has experienced a rebound in occupancy levels in Charlottetown following weakness over the last 12 months due to new supply introduced in the market and a slowdown in the number of international immigrants coming to the Province as part of PEI's Provincial Nominee Program. This has proven to be a short-term challenge as Killam improved occupancy levels in Charlottetown by 130 basis points compared to September 2012.

St. John's, Newfoundland, remains Killam's strongest market with the Company's apartment portfolio 99.1% occupied at September 30, 2013, and average same store rental rate increases of 6.0% year-over-year. Killam remains optimistic about the long-term NOI growth opportunities in the St. John's market, where, despite above average rental rate growth over the last four years, monthly rents remain affordable, averaging just $832 per month as measured by CMHC.

Management is pleased to report a 190 basis point improvement in occupancy levels in its Ontario assets at September 30, 2013, compared to the same time last year, and a 390 basis point improvement from the end of the second quarter. The most notable improvement has been in Ottawa. The Company has been repositioning a portfolio of four buildings acquired in September 2012 over the last year and is now realizing a positive return on the investment in these assets. Killam's apartment occupancy in Ontario was 97.4% at September 30, 2013, and improved further in October, ending the month at 98.2% occupancy.

Dollar amounts in thousands (except as noted)

Apartment Property Expenses

Same store apartment property expenses increased 2.4% and 5.3% for the three and nine months ended September 30, 2013, which was primarily driven by increases in electricity and fuel expenses as a result of high natural gas prices in Atlantic Canada.

Utility and Fuel Expense - Same Store

		Three months ended September 30,			Nine months ended September 30,	
	2013	2012	% Change	**2013**	2012	% Change
Natural gas	**$308**	$236	30.5%	**$3,109**	$1,734	79.3%
Oil	**196**	263	(25.5)%	**1,111**	1,670	(33.5)%
Electricity	**980**	925	5.9%	**3,748**	3,328	12.6%
Water	**882**	847	4.1%	**2,609**	2,551	2.3%
Other	**8**	10	(20.0)%	**23**	24	(4.2)%
Total utility and fuel expenses	**$2,374**	$2,281	4.1%	**$10,600**	$9,307	13.9%

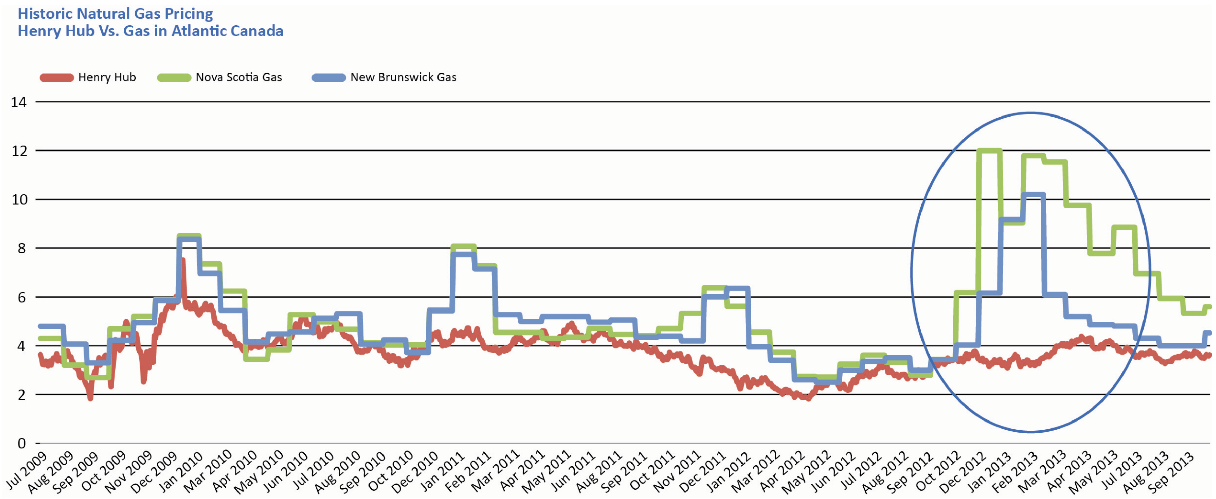
Killam's apartment properties are heated with a combination of natural gas (55%), electricity (36%), oil (8%) and other sources (1%). Electricity costs at the unit level are usually paid directly by tenants, while heating costs associated with oil and natural gas fired heating plants are paid by Killam. As such, the Company is exposed to fluctuations in natural gas and oil costs, which represent 21% of total utility and fuel costs in Q3 2013, and 40% year-to-date.

Killam invests in green initiatives at its properties to maximize efficiencies, including converting many of its Halifax properties to natural gas from oil over the last two years as natural gas infrastructure has been expanded in the City. The decision to convert was supported by the substantial price difference between the cost of natural gas and oil in recent years.

As noted in the table above, Killam's utility and fuel expenses increased by 4.1% in the third quarter of 2013 compared to 2012. The increase was primarily attributable to higher electricity costs, which were up 5.9% in the quarter. Killam's rental incentives have increased the amount of rents with electricity included at certain New Brunswick properties to compete with similar promotions offered by other apartment owners in the market. Rents are typically increased to offset this additional expense, however tenants are attracted to fixing the cost of electricity in a monthly rental payment.

Natural gas expenses increased by 30.5% in the quarter, and 79.3% year-to-date due to higher gas costs in Atlantic Canada year-over-year and an increase in properties burning natural gas following conversions of certain Halifax heating plants from oil to gas in 2012. The reduction in oil expense in the quarter and year-to-date reflects this reduction in oil exposure.

The cost of natural gas in Atlantic Canada and New England experienced a spike from December 2012 until the late spring 2013 compared to other areas of Canada due to increased demand from utilities in Northeast New England during the heating season combined with a temporary decline in gas supply off the coast of Nova Scotia. As reported in Q1 and Q2 2013, this cost increase resulted in approximately $0.9 million in higher heating costs for Killam in the first half of the year. As the following chart highlights, the per Gj commodity cost for natural gas in New Brunswick and Nova Scotia decreased during the summer months. The commodity gas cost in New Brunswick has reverted to levels more in line with the traditional spread over NYMEX pricing (NYMEX is the New York Mercantile Exchange, a commodity futures exchange. Henry Hub, a gas distribution hub in Louisiana is the pricing point for natural gas futures contracts traded on NYMEX). Summer pricing in Nova Scotia reflected a higher spread than experienced in past years due to a change in the transmission charges relating to gas received from the marketer for the Sable Offshore Energy Project.



The weighted average cost of gas in Atlantic Canada increased by 19% in Q3 2013 from Q3 2012 from $8.96 per to $10.69 per Gj. Year-to-date Killam's weighted average cost of gas (excluding delivery charges) increased by 37.6%, from $9.32 in 2012 to $12.82 in 2013. Looking forward Management expects to experience less volatility in gas pricing in 2014 as the Company's Nova Scotia gas supplier has locked-in a portion of its consumption requirements with fixed price contracts for 2014. Overall Killam expects to experience a decrease in gas costs in 2014 compared to 2013 if heating degree days are similar to 2013, however costs are not expected to return to 2012 levels.

Same store water expense increased by 3.3% in the quarter and 2.0% year-to-date. Increased water rates in Halifax contributed, but were partially offset by water saving initiatives. Water cost as a percentage of revenue is expected to increase over the next year and a half due to increased water rates in Halifax that became effective July 2013. An additional increase will come into effect in April 2014. Killam is evaluating the full impact of these increases, but expects a 10% to 15% increase in water costs in 2014 compared to 2013. Killam will continue to invest in water saving initiatives to mitigate these increased costs.

Dollar amounts in thousands (except as noted)

Apartment Same Store NOI by City

Net revenue growth of 1.0%, partially offset by higher property operating expenses, has increased same store apartment NOI by 0.3% during the three months ended September 30, 2013. Year-to-date, same store apartment NOI is 0.8% lower than the comparable period of 2012 due to higher utility costs in the first half of 2013. Same store NOI results by city, as shown in the charts below, vary depending on the recent vacancy levels in each market and the higher utility costs experienced in some regions during the first half of 2013.

For the three months ended September 30,

	2013	2012	$ Change	% Change
Halifax	**$7,904**	$7,718	$186	2.4%
Moncton	**1,777**	1,776	1	0.1 %
Fredericton	**1,782**	1,807	(25)	(1.4)%
Saint John	**1,164**	1,263	(99)	(7.8)%
Ontario	**1,094**	1,084	10	0.9%
St. John's	**1,209**	1,196	13	1.1%
Charlottetown	**996**	1,067	(71)	(6.7)%
Other Atlantic locations	**647**	618	29	4.7%
	$16,573	$16,529	$44	0.3%

For the nine months ended September 30,

	2013	2012	$ Change	% Change
Halifax	**$21,743**	$21,761	$(18)	(0.1)%
Moncton	**4,942**	4,902	40	0.8 %
Fredericton	**5,179**	5,244	(65)	(1.2)%
Saint John	**3,089**	3,513	(424)	(12.1)%
Ontario	**3,312**	3,185	127	4.0%
St. John's	**3,524**	3,376	148	4.4%
Charlottetown	**2,756**	3,017	(261)	(8.7)%
Other Atlantic locations	**1,764**	1,661	103	6.2%
	$46,309	$46,659	$(350)	(0.8)%

Halifax posted NOI growth of 2.4% in Q3 due to rental rate growth, strong occupancy and modest operating expense growth. The highest same store NOI growth for the nine months was achieved at properties located in the St. John's and Ontario markets, posting gains of 4.4% and 4.0% year-to-date. These markets were not impacted by higher natural gas costs and have experienced occupancy gains year-over-year.

Saint John is Killam's weakest market with higher vacancy rates driving the 7.8% decline in NOI in Q3 2013 and 12.1% year-to-date. The decline in occupancy in Charlottetown compared to 2012 resulted in decreased NOI of 6.7% for the third quarter and 8.7% year-to-date. Fredericton has slightly negative NOI growth in the quarter and year-to-date due to higher vacancy in 2013 compared to 2012. Moncton achieved same store NOI growth in the quarter and year-to-date, showing 0.8% growth from occupancy rates increased and positive rental growth.

Management expects to post positive same store NOI growth in Q4 2013, and targets annual NOI growth for 2013 between 0% and 1%.

Dollar amounts in thousands (except as noted)

MHC Results

For the three months ended September 30,

	Total Portfolio			Same Store			Non Same Store		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Property revenue	**$5,916**	$5,887	0.5%	**$5,916**	$5,821	1.6%	**$-**	$67	(100.0)%
Property expenses									
Operating expenses	**(1,187)**	(1,312)	(9.5)%	**(1,187)**	(1,312)	(9.5)%	**-**	-	N/A
Utility and fuel expenses	**(618)**	(617)	0.2%	**(618)**	(617)	0.2%	**-**	-	N/A
Property taxes	**(247)**	(243)	1.6%	**(247)**	(243)	1.6%	**-**	-	N/A
Total property expenses	**(2,052)**	(2,172)	(5.5)%	**(2,052)**	(2,172)	(5.5)%	**-**	-	N/A
NOI	**$3,864**	$3,715	4.0%	**$3,864**	$3,649	5.9%	**$-**	$67	(100.0)%
Operating margin	**65.3%**	63.1%	3.5%	**65.3%**	62.7%	4.1%	**-%**	-%	-%

For the nine months ended September 30,

	Total Portfolio			Same Store			Non Same Store		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Property revenue	**$15,125**	$18,088	(16.4)%	**$15,229**	$14,848	2.6%	**$(104)**	$3,240	(103.2)%
Property expenses									
Operating expenses	**(3,328)**	(3,825)	(13.0)%	**(3,328)**	(3,344)	(0.5)%	**-**	(481)	(100.0)%
Utility and fuel expenses	**(1,632)**	(1,898)	(14.0)%	**(1,632)**	(1,580)	3.3%	**-**	(317)	(100.0)%
Property taxes	**(746)**	(837)	(10.9)%	**(746)**	(736)	1.4%	**-**	(101)	(100.0)%
Total property expenses	**(5,706)**	(6,560)	(13.0)%	**(5,706)**	(5,660)	0.8%	**-**	(899)	(100.0)%
NOI	**$9,419**	$11,528	(18.3)%	**$9,523**	$9,188	3.6%	**$(104)**	$2,341	(104.4)%
Operating margin	**62.3%**	63.7%	(2.2)%	**62.5%**	61.9%	1.0%	**100.0%**	72.3%	38.3%

Killam's MHC business accounted for 15% of earnings from property operations during the nine months ended September 30, 2013, compared to 17% for the same period of 2012. Property revenues from the MHCs increased 0.5% for the three months ended September 30, 2013, but decreased 16.4% for the nine months ended September 30, 2013, primarily due to the sale of twelve MHC properties in May 2012. The impact of the sale was partially offset by increased revenue at same store properties. Killam's MHC properties were 97.9% occupied at September 30, 2013, down 10 basis points from 98.0% at June 30, 2013.

Same store MHC property revenue increased 1.6% and 2.6% for the three and nine months ended September 30, 2013, compared to the same periods in 2012. This is a result of a 1.6% increase in weighted average rent per unit of $228 from $224 in Q3 2012. Total same store property expenses decreased 5.5% for the three month period ended September 30, 2013, due primarily to lower water testing and water repair costs following recent capital upgrades, and negotiated garbage removal savings. Year-to-date, same store property operating expenses have realized modest growth of 0.8%.

Same store revenue growth, combined with efforts to minimize operating expenses, increased MHC same store NOI by 5.9% and 3.6% for the three and nine months ended September 30, 2013. Operating margins have also increased by 260 and 60 basis points from the comparable periods of 2012.

Dollar amounts in thousands (except as noted)

PART IV

Other Income

Home Sales

	Three months ended September 30,			Nine months ended September 30,		
	2013	2012	% Change	**2013**	2012	% Change
Home sale revenue	**$591**	$575	2.8%	**$2,007**	$1,637	22.6%
Cost of home sales	**(550)**	(484)	13.6%	**(1,707)**	(1,295)	31.8%
New home placement fees	**15**	30	(50.0)%	**-**	93	(100.0)%
Operating expenses	**(12)**	(28)	(57.1)%	**(43)**	(67)	(35.8)%
Income from home sales	**$44**	$93	(52.7)%	**$257**	$368	(30.2)%

Killam completed 7 home sales and 1 home sale placement during the third quarter of 2013, compared to 5 home sales and 2 home sale placements in the third quarter of 2012. Year-to-date, Killam has completed 21 home sales and 1 home sale placement compared to 12 home sales and 7 home sale placements in the first nine months of 2012. The Company has 7 confirmed home sales for the remainder of 2013.

Although the number of home sales are higher in Q3 2013, the margins were smaller due to two contributing factors. A softening of the market in the Birchlee development required lowering margins in efforts to close three of the Q3 sales. Another contributing factor was the decision to sell two long-standing, inventoried stock homes at below cost in two Ontario MHCs. This allowed for recovery of over $100,000 in inventory costs, and the elimination of utility costs for these stock homes during the winter months. The Company does not anticipate selling any other homes below costs in 2013, 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.

Equity Income

	Three months ended September 30,			Nine months ended September 30,		
	2013	2012	% Change	**2013**	2012	% Change
Equity Income	**$189**	$218	(13.3)%	**$1,158**	$518	123.6%

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

Equity income decreased quarter-over-quarter by 13.3%. This decrease is due to higher interest expense as mortgages were placed on all three properties subsequent to Q3 2012, resulting in a higher leveraged yield. Equity income increased year-over-year due to fair value gains recorded on the Kanata Lakes property in Q2 2013. Excluding this non-cash increase in fair value due to Cap-Rate compression in the Ottawa market, the equity income for the year is $0.5 million.

Dollar amounts in thousands (except as noted)

Corporate Income

	Three months ended September 30, 2013	2012	% Change	Nine months ended September 30, 2013	2012	% Change
Corporate income	**$295**	$221	33.5%	**$719**	$675	6.5%

Corporate income includes property management fees, interest on bank accounts and transaction fees related to the joint venture partnership. The increase for the three and nine month periods ended September 30, 2013, is related to increased property management fees earned in 2013 as compared to 2012 as a result of the higher revenues in the joint venture properties.

Fair Value Gains

	Three months ended September 30, 2013	2012	% Change	Nine months ended September 30, 2013	2012	% Change
Apartments	**$551**	$6,192	(91.1)%	**$15,121**	$26,091	(42.0)%
MHCs	**1,856**	87	2,033.3%	**11,776**	1,578	646.3%
	$2,407	$6,279	(61.7)%	**$26,897**	$27,669	(2.8)%

The effective weighted average Cap-Rate used to value the apartment properties decreased 18 basis points to 5.84% from December 31, 2012, resulting in an increased valuation for Killam's investment properties. Apartment Cap-Rates have stabilized during Q3 with no change during the quarter.

The effective weighted average Cap-Rate used to value the MHCs decreased 62 basis points year-to-date compared to December 2012. The weighted average Cap-Rate for the MHC decreased by 8 basis points in Q3 2013 reflecting increased valuations. See further discussion on Cap-Rates in the “Investment Properties” section of the MD&A.

Other Expenses

Financing Costs

	Three months ended September 30, 2013	2012	% Change	Nine months ended September 30, 2013	2012	% Change
Mortgage and loan interest	**$7,802**	$6,925	12.7%	**$22,433**	$21,598	3.9%
Amortization on fair value adjustments on assumed debt	**(109)**	(131)	(16.8)%	**(314)**	(131)	139.7%
Convertible debenture interest	**1,675**	1,659	1.0%	**5,011**	4,971	0.8%
Subordinated debenture interest	**-**	174	N/A	**10**	528	(98.1)%
Capitalized interest	**(93)**	(327)	(71.6)%	**(970)**	(648)	49.7%
	$9,275	$8,300	11.7%	**$26,170**	$26,318	(0.6)%

Financing costs were $1.0 million or 11.7% higher in the third quarter of 2013 compared to the same quarter of 2012 due to increased interest costs on debt placed or assumed on new acquisitions and a decrease in capitalized interest as a result of the four development projects coming online during the first half of 2013. Year-to-date financing costs are flat compared to 2012 as a result of increased interest costs related to new acquisitions offset by refinancings at lower interest rates, payout of the subordinate debentures and the sale of the 12 MHCs in Q2 2012.

Dollar amounts in thousands (except as noted)

Mortgage and loan interest expense, as a percentage of NOI, has continued to decrease quarter-over-quarter and year-over-year as the Company refinances and acquires new debt at lower interest rates. Year-to-date, Killam has placed $76.0 million of new debt on acquisitions and completed developments, including a 10-year and two 5-year term mortgages at an average interest rate of 3.44%. As well, Killam's mortgages refinanced for the first nine months of 2013 have resulted in the average interest rate on the refinanced debt to decrease from 4.70% to 3.15% for apartments and 6.30% to 4.28% for MHCs.

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates of its mortgages. An annualized 1% change in the interest rate on Killam's mortgage and vendor debt at September 30, 2013, would affect financing costs by approximately $7.3 million per year. However, only $149.7 million of Killam's mortgage and vendor debt matures in the next twelve months and that same interest rate change would impact Killam by only $1.5 million per annum. The Company's credit facility and operating facility are discussed on page 30 of the MD&A.

The subordinated debentures were repaid on January 4, 2013, generating an interest expense savings of $0.2 million and $0.6 million for the three and nine months ended September 30, 2013.

As well, capitalized interest decreased $0.2 million for the three months ended September 30, 2013, because of the completion of the three development projects. Capitalized interest increased $0.3 million for the nine months ended September 30, 2013, as a result of increased capital spend on the development properties. Interest costs have been capitalized to their respective development property throughout the quarter until substantial completion was achieved, using the Company's weighted-average borrowing rate of 4.50% (September 30, 2012 - 4.82%).

Depreciation Expense

	Three months ended September 30,			Nine months ended September 30,		
	2013	2012	% Change	**2013**	2012	% Change
Total	**$154**	$141	9.2%	**$440**	$341	29.0%

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 increase for the three and nine months ended September 30, 2013, is a result of depreciation of additions including vehicles, computer software and leasehold improvements.

Amortization of Deferred Financing Costs

	Three months ended September 30,			Nine months ended September 30,		
	2013	2012	% Change	**2013**	2012	% Change
Total	**$425**	$411	3.4%	**$1,212**	$1,239	(2.2)%

Deferred financing amortization has increased 3.4% for the three months ended September 30, 2013, as a result of refinancings and new debt placements on acquired properties and completed developments. Deferred financing amortization has decreased 2.2% year-over-year due to the sale of the twelve MHCs in May 2012, partially offset by refinancings and new debt placements during the last 12 months.

The deferred financing costs include mortgage assumption fees, application fees and legal costs related to obtaining financings, and these costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. The costs associated with the convertible debentures are amortized over the terms of the debentures.

Dollar amounts in thousands (except as noted)

Administration Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2013	2012	% Change	**2013**	2012	% Change
Total	**$2,060**	$2,165	(4.8)%	**$5,695**	$6,471	(12)%
As a percentage of total revenues	**5.6%**	6.4%		**5.4%**	6.5%	

Administration expenses includes expenses which are not specific to an individual property. These expenses include TSX related costs, management and head office salaries and benefits, communication costs, office equipment leases, professional fees and other head office and regional office expenses.

Administrative expenses as a percentage of revenues were lower in the three and nine months ended September 30, 2013, as a result of timing of professional fees and no one-time severance costs, offset by an increase in marketing costs which aided in Killam's success in reducing vacancy in most regions.

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

Deferred Tax Expense

The Company has booked future income tax expense for the three and nine months ended September 30, 2013, and 2012. 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 reduce taxable income through the use of loss carry-forwards. Based on the assumption that the Company does not add to its asset base, Management estimates that it would take approximately three to five years to fully utilize these deductions.

Dollar amounts in thousands (except as noted)

PART V

Funds from Operations ("FFO")

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 as follows:

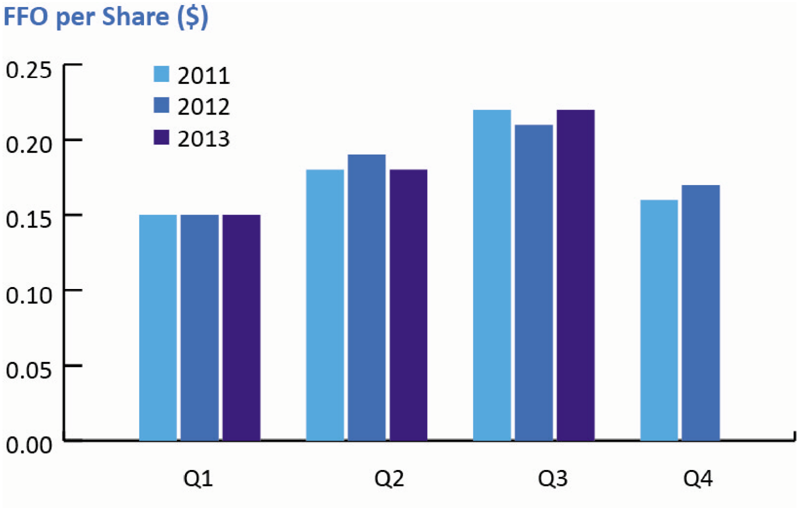
	Three months ended September 30,			Nine months ended September 30,		
	2013	2012	% Change	**2013**	2012	% Change
Net income	**$12,299**	$12,819	(4.1)%	**$45,118**	$42,559	6.0%
Fair value gains	**(2,407)**	(6,279)	(61.7)%	**(26,897)**	(27,669)	(2.8)%
Fair value gains included in equity income	**-**	-	-	**(691)**	-	-
Non-controlling interest (before tax and gains)	**(234)**	(236)	(0.8)%	**(722)**	(713)	1.3%
Deferred tax expense	**1,972**	4,208	(53.1)%	**12,211**	11,877	3%
(Gain) loss on disposition	**-**	209	(100.0)%	**(171)**	1,310	(113.1)%
Depreciation on owner-occupied building	**38**	-	N/A	**110**	-	N/A
FFO	**$11,668**	$10,721	8.8%	**$28,958**	$27,364	5.8%
FFO/share - basic	**$0.22**	$0.21	4.8%	**$0.54**	$0.55	(1.8)%
FFO/share - diluted	**$0.21**	$0.21	-%	**$0.53**	$0.54	(1.9)%
Weighted average shares- basic (000's)	**54,266**	50,330	7.8%	**54,058**	49,779	8.6%
Weighted average shares - diluted (000's) (1)	**54,621**	50,197	8.8%	**54,433**	50,411	8.0%

(1) The calculation of weighted average shares outstanding for diluted FFO and AFFO purposes excludes the convertible debentures as they are anti-dilutive.

Killam earned FFO of $11.7 million, or $0.22 per share, during the third quarter of 2013 compared to $10.7 million or $0.21 per share during the same period of 2012. The increased FFO per share is primarily attributable to increased earnings associated with 2013 acquisitions and developments coupled with same store growth in the quarter and lower G&A costs in Q3 2013. The benefit from these additions to FFO were partially offset by an increase in the weighted average shares outstanding and higher depreciation and amortization expense. Killam expects additional FFO growth in the fourth quarter as the developments continue to lease-up and same store properties generate additional NOI growth.

FFO per share is down 1.8% during the first nine months of the year due primarily to higher natural gas costs and increased vacancy in Q1 and Q2. The timing of acquisitions completed during the first half of the year and completion of development projects also contributed to the short-term decline in FFO per share.

Dollar amounts in thousands (except as noted)



Adjusted Funds From Operations ("AFFO")

AFFO is a supplemental measure used by real estate analysts and some investors to represent FFO after taking into consideration the capital spend related to maintaining the earning capacity of a portfolio versus NOI enhancing capital investments. AFFO is a non-IFRS measure and Management believes that significant judgment is required to determine the annual capital expenditures that relate to maintaining 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 September 30,			Nine months ended September 30,		
	2013	2012	% Change	**2013**	2012	% Change
Funds from operations	**$11,668**	$10,721	8.8%	**$28,958**	$27,364	5.8%
Maintenance Capital Expenditures						
Apartments	**(1,345)**	(1,241)	8.4%	**(3,919)**	(3,664)	7.0%
MHCs	**(185)**	(185)	-%	**(556)**	(631)	(11.9)%
Adjusted funds from operations	**$10,138**	$9,295	9.1%	**$24,483**	$23,069	6.1%
AFFO/ share - basic	**$0.19**	$0.18	5.6%	**$0.45**	$0.46	(2.2)%
AFFO/ share - diluted	**$0.19**	$0.18	5.6%	**$0.45**	$0.46	(2.2)%
AFFO payout ratio - basic(1)	**78%**	79%	(1.3)%	**96%**	94%	2.1%

(1) Based on Killam's annualized dividend of $0.58.

The basic AFFO payout ratio of 78% and 96% for the three and nine months ended September 30, 2013, corresponds with the seasonality of Killam's business. Killam's first quarter typically has the lowest AFFO per share of the year due to high heating costs in the winter months. The third quarter has typically the highest AFFO per share due to lower operating costs.

Dollar amounts in thousands (except as noted)

PART VI

Investment Properties

As at

	September 30, 2013	December 31, 2012	% Change
(i) Investment properties	**$1,511,785**	$1,296,724	16.6%
(ii) IPUC	**18,281**	57,941	(68.4)%
	$1,530,066	$1,354,665	12.9%

Continuity of Investment Properties

The following table summarizes the changes in value of Killam's investment properties for the three and nine months ended September 30, 2013 and 2012.

	Three months ended September 30,		**Nine months ended September 30,**	
	2013	2012	**2013**	2012
Balance, beginning of the period	**$1,461,882**	$1,237,298	**$1,296,724**	$1,246,645
Acquisition of properties	**41,880**	29,663	**104,049**	63,981
Disposition of properties	**-**	-	**-**	(72,973)
Transfer from IPUC	**-**	-	**70,315**	**-**
Capital expenditures	**5,616**	6,253	**13,800**	14,172
Fair value adjustments - Apartments	**551**	8,166	**15,121**	28,064
Fair value adjustment - MHCs	**1,856**	87	**11,776**	1,578
Balance, end of period	**$1,511,785**	$1,281,467	**$1,511,785**	$1,281,467

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 September 30, 2013, December 31, 2012, and September 30, 2012, as provided by Killam's independent valuator, are as follows:

Capitalization Rates

	September 30, 2013			December 31, 2012			September 30, 2012		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**4.50%**	**8.00%**	**5.84%**	4.50%	8.00%	6.02%	5.30%	8.00%	6.07%
MHCs	**6.00%**	**8.25%**	**6.58%**	6.50%	8.50%	7.04%	6.50%	8.50%	7.26%

As highlighted in the above chart, the effective weighted average Cap-Rate used to value the apartment properties decreased by 23 basis points quarter-over-quarter and 16 basis points since December 31, 2012, generating an increased valuation for some properties. The effective weighted average Cap-Rates used to value the MHCs decreased 60 basis points quarter-over-quarter and 38 basis point from December 31, 2012. There has been no Cap-Rate compression recognized on the apartment portfolio in Q3. The weighted average Cap-Rate for the MHC decreased by 8 basis points in Q3 reflecting increased valuations.

Dollar amounts in thousands (except as noted)

A sensitivity analysis of all significant assumptions is shown below:

Class of property	Capitalization rate		Vacancy rate(1)	Inflation rate(1)	Management fee rate(1)	Rental growth(1)
	10 basis points increase	*10 basis points decrease*	*1% increase/ decrease in vacancy*	*1% increase/ decrease in inflation*	*1% increase/ decrease in management fee*	*1% increase/ decrease in rental growth*
Apartments	$(22,320)	$23,098	$22,165	$6,049	$22,304	$21,414
MHCs	$(2,734)	$2,819	$2,601	$1,097	$2,601	$2,523

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

2013 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Year Built	Units	Purchase Price(2)
Apartments					
1090 Kristin Way	Ottawa	25-Jan-13	1974	102	$10,350
200 Royale Blvd.	Halifax	4-Mar-13	2012	83	18,900
46 & 54 Strathmore Ave	Moncton	28-Mar-13	2001	40	3,150
777 Gauvin Road	Moncton	13-May-13	2013	48	8,060
36 Westridge Crescent(1)	Charlottetown	21-May-13	1985	8	256
280 Shakespeare Drive(1)	Stratford	21-May-13	2010	26	3,059
39-66 Ducks Landing(1)	Stratford	21-May-13	2005-2012	138	15,385
1033 Queen Street West(4)	Toronto	31-July-13	2012	179	40,000
				624	$99,160
Land					
Saginaw Parkway	Cambridge	16-Jan-13			$4,000
St. George Street	Moncton	15-Feb-13			1,100
1057 Barrington Street(3)	Halifax	13-Sept-13			1,810
					$6,910
Total Acquisitions(1)					**$106,070**

(1) Acquired as a portfolio.
(2) Purchase price on acquisitions does not include transaction-related costs.
(3) Killam has entered into a 50/50 joint development agreement with another company for the purchase of this land. This represents Killam's interest in the land.
(4) Included in the acquisition is 21,242 square feet of commercial space.

In addition to apartment acquisitions during the first nine months of 2013, Killam purchased three parcels of land for future development. The parcel of land located in Cambridge is 5.2 acres and is zoned for a maximum height of seven stories and a density of 180 units. The parcel of land in Moncton is 0.8 acres. A third piece of land, 0.74 acres, was purchased under a joint development agreement in Q3 2013 in Halifax for the purpose of developing a six storey mixed-use building.

Investment Properties Under Construction

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Balance, beginning of period	**$14,881**	$28,357	**$57,941**	$11,574
Capital expenditures	**1,497**	12,787	**22,391**	29,248
Interest capitalized	**93**	312	**970**	634
Land acquisitions	**1,810**	-	**7,294**	-
Transfers to investment properties	**-**	-	**(70,315)**	-
Balance, end of period	**$18,281**	$41,456	**$18,281**	$41,456

Dollar amounts in thousands (except as noted)

The current development located in St. John's is in close proximity to the recently completed Bennett House. This site is 2.3 acres and the current development is a two building 101-unit complex. The design and site planning have been completed and Killam has engaged a project manager for the development. The Company has recently broken ground on this development and completion is expected in Q3 2014. In order to generate higher returns than previous developments, the Company has approved a lower per unit development cost, entered into fixed price contracts and shortened the development timeline through a two-phase approach. The Company expects an all cash yield of approximately 6%.

The development in Cambridge is located on a 5.2 acre site and Phase 1 will include 122 units. This development is expected to commence in the fourth quarter of 2013. The Company has already contributed $4.8 million to the project and the expected yield on this project is approximately 6%.

Management believes that building and buying new apartments has the opportunity to generate more stable cash flows and improved return on investment over time compared to buying older buildings. Management acknowledges that there is a dilutive impact on FFO per share growth during the period of construction but believes the short-term impact is more than offset by the 10-15 years of nominal maintenance costs provided by a newly built project. Older buildings typically require a much higher capital spend per year, estimated at $1,200 per unit per year, versus an estimated $300 per unit for new construction. Assuming similar NOI growth between an old and new building, the lower capital spend on the new build is expected to result in a higher return on the total investment of the property in the first 10 – 15 years of ownership. Management expects to provide disclosure regarding capital spend associated with its new development projects over the next few years to provide support for this theory and show the Company's ability to grow the return on investments of the new developments over time.

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the third quarter of 2013, Killam invested a total of $5.6 million, compared to $6.2 million in the same quarter of 2012. Capital investments in the period are added to the book value of the investment properties.

	Three months ended September 30,			**Nine months ended September 30,**		
	2013	2012	% Change	**2013**	2012	% Change
Apartments	**$4,892**	$5,536	(11.6)%	**$11,298**	$11,831	(4.5)%
MHCs	**724**	673	7.6%	**2,491**	2,292	8.7%
Other	**-**	-	DIV/0	**11**	5	120.0%
	$5,616	$6,209	(9.6)%	**$13,800**	$14,128	(2.3)%

Dollar amounts in thousands (except as noted)

Apartments

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

	Three months ended September 30,			Nine months ended September 30,		
	2013	2012	% Change	**2013**	2012	% Change
Building improvements	**$2,268**	$2,785	(18.6)%	**$5,136**	$5,836	(12.0)%
Suite renovations	**1,988**	1,422	39.8%	**4,762**	3,456	37.8%
Land improvements	**46**	10	360.0%	**50**	22	127.3%
Boilers and heating equipment	**93**	774	(88.0)%	**241**	1,481	(83.7)%
Appliances	**358**	249	43.8%	**825**	516	59.9%
Parking lots	**16**	138	(88.4)%	**20**	144	(86.1)%
Equipment	**53**	84	(36.9)%	**134**	201	(33.3)%
Other	**70**	74	(5.4)%	**130**	175	(25.7)%
Total capital spend - Apartments	**$4,892**	$5,536	(11.6)%	**$11,298**	$11,831	(11.6)%
Average number of units outstanding	**12,468**	11,031	13.0%	**12,094**	10,857	11.4%
Capital spend per unit	**$392**	$502	(21.9)%	**$934**	$1,090	(14.3)%

Killam estimates that $450 per unit of the capital spending 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 may 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 $392 and $934 per unit in the three and nine months ended September 30, 2013, compared to $502 and $1,090 per unit in the three and nine months ended September 30, 2012. Approximately 40% of the capital spending during the third quarter was invested in suite renovations. The increase quarter-over-quarter is a result of unit upgrades to improve quality and increased occupancy, increase yields on properties identified for repositioning, and support the Company's commitment to increasing unit quality to maximize rental increases. Killam expects to recover the renovation costs through increased rental rates.

As an example, during the first nine months of 2013 the Company has been actively working to reposition Brentwood Apartments, a 45-year old, 240-unit, property located in Halifax and acquired in 2012. The Company identified that significant value could be created at this property by improving the quality of the units and generating increased NOI through higher rents. Unit upgrades have averaged $15,000 per unit and have consisted of new appliances, flooring and kitchen and bathroom upgrades. The Company has achieved a corresponding lift in rents of approximately 15% on the 42 units it has completed to-date. Based on a 5-year project timeline, with 20% of the units renovated each year, the Company expects to see the returns on the total investment improve 145 basis points from 6.25% to 7.70%. The Company has also identified additional properties in the Atlantic region as well as Ontario for repositioning and will continue to invest in upgrades where these higher yields can be achieved.

Boilers and heating equipment costs have decreased significantly in the three and nine months ended September 30, 2013, as a result of increased costs incurred to covert most properties over to natural gas in 2012. The majority of the remaining capital expenditures during the third quarter have been related to exterior building repairs, including roofing and balcony upgrades, brick replacement and exterior facade upgrades. 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 the capital requirements.

Killam expects to invest approximately $15 million to $17 million during 2013 on apartment portfolio capital investments.

Dollar amounts in thousands (except as noted)

MHCs

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

	Three months ended September 30,			Nine months ended September 30,		
	2013	2012	% Change	**2013**	2012	% Change
Water & sewer upgrades	**$349**	$309	12.9%	**$1,726**	$1,396	23.6%
Roads and paving	**176**	20	780.0%	**193**	179	7.8%
Equipment	**14**	8	75.0%	**21**	35	(40.0)%
Other	**111**	185	(40.0)%	**391**	395	(1.0)%
Site expansion and land improvements	**74**	151	(51.0)%	**160**	286	(44.1)%
Total capital spend - MHCs	**$724**	$673	7.6%	**$2,491**	$2,291	8.7%
Average number of units outstanding	**7,407**	7,397	0.1%	**7,407**	8,419	(12.0)%
Capital spend per unit	**$98**	$91	7.7%	**$336**	$272	23.5%

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 some 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 months ending September 30, 2013, Killam has incurred higher paving costs compared to Q3 2012. This relates to the timing of spending, as the majority of this work in 2012 was done in the second quarter, versus the third quarter in 2013.

For the three and nine month periods ending September 30, 2013, water and sewer upgrades have increased 12.9% and 23.6% over Q3 2012 as a result of new water systems placed on two of the Company's Nova Scotia properties.

As with the apartment portfolio, the timing of capital spending changes based on requirements at each community. Per unit costs quarter-over-quarter have increased primarily due to upgrades of water and sewer infrastructure. Killam expects to invest $3 million to $4 million during 2013 on capital improvements in the MHC portfolio.

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 $11.4 million at September 30, 2013, a portion of which can be used for future growth.

Dollar amounts in thousands (except as noted)

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at

	September 30, 2013	December 31, 2012	% Change
Weighted average years to maturity of mortgage and vendor debt (years)	**3.8**	3.4	11.8%
Gross mortgage, loan and vendor debt as a percentage of total assets	**46.2%**	45.2%	100 bps
Total debt as a percentage of total assets	**53.2%**	51.6%	160 bps
Interest coverage ratio (rolling twelve months)	**2.17x**	2.09x	3.8%
Debt service coverage ratio (rolling twelve months)	**1.38x**	1.35x	2.2%
Weighted average interest rate of mortgage and vendor debt	**4.21%**	4.48%	(27) bps
Weighted average interest rate of total debt	**4.50%**	4.84%	(34) 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 September 30, 2013, only the construction financing loan of $14.8 million and four demand loans, totaling $3.9 million, have floating interest rates. These demand loans have an interest rate of prime plus 1.0% - 2.0%. The construction financing has a floating interest rate of prime plus 0.75%. The construction loan will be repaid in full and converted into a CMHC insured mortgage once rental targets have been achieved.

Killam's September 30, 2013, weighted average interest rate on mortgages improved to 4.21% compared to 4.48% as at December 31, 2012, as a result of refinancings at lower interest rates during the period. This trend is expected to continue throughout the next 12 months when $149 million of current mortgage balances will be refinanced (23% of the portfolio). In 2015 and 2016, $224 million of mortgages will also mature; by December 31, 2016, 72% of Killam's mortgages are expected to be refinanced and the weighted average years to maturity lengthened. Management expects to refinance at lower rates than its weighted average interest rate of 4.58% on maturing debt in 2014. The opportunity to refinance at lower rates should lead to increased earnings for the portfolio.

Total debt as a percentage of total assets has increased 130 basis points to 53.2% compared to the first and second quarter of 2013, and increased 106 basis points from December 31, 2012. 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 September 30, 2013, would have increased the ratio of debt as a percentage of total assets by 80 basis points.

2013 Refinancings

During the nine months ended September 30, 2013, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Avg. Term	Net Proceeds
Apartments	$42,459	4.70%	$61,470	3.15%	6.2 years	$19,011
MHCs	8,125	6.30%	10,900	4.28%	5.0 years	2,776
	$50,584	4.87%	$72,370	3.21%	6.0 years	$21,787

The Company also placed $76.0 million in new financing on unencumbered properties acquired and developments completed during the nine month period at a weighted average rate of 3.44%.

Dollar amounts in thousands (except as noted)

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 the year of maturity:

	Apartments			MHCs		**Total**	
Year of Maturity	Balance September 30, 2013	Weighted Avg Int Rate %	% CMHC Insured	Balance September 30, 2013	Weighted Avg Int Rate %	**Balance September 30, 2013**	**Weighted Avg Int. Rate %**
2013	26,912	4.48	78.6	702	6.34	27,614 (1)	4.53
2014	140,567	4.56	54.8	17,308	5.59	157,875	4.67
2015	86,796	4.51	67.2	16,451	5.53	103,247	4.67
2016	108,828	4.28	50.7	12,242	5.39	121,070	4.39
2017	25,684	3.26	100.0	19,871	4.60	45,555	3.85
2018	83,730	3.66	47.7	12,460	4.53	96,190	3.77
2019	20,082	4.84	100.0	-	-	20,082	4.84
2020	20,013	4.09	100.0	-	-	20,013	4.09
2021	23,901	3.79	88.8	-	-	23,901	3.79
2022	24,707	3.79	100.0	-	-	24,707	3.16
Thereafter	93,382	3.46	100.0	-	-	93,382	3.43
	$ 654,602	4.13	66.7	$ 79,034	5.17	$733,636	4.25

(1) Includes $2.1 million related to a demand loan classified as current.

As at September 30, 2013, approximately 70% of the Company's apartment mortgages were CMHC insured (62% of all mortgages as MHC properties are not eligible for CMHC insurance) (December 31, 2012 – 61% and 53%). The weighted average interest rate on the CMHC insured mortgages was 3.95% as at September 30, 2013 (December 31, 2012– 3.98%).

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 2013 and throughout 2014. With $143 million in mortgages maturing in 2014, Management is currently evaluating opportunities to fix interest rates before maturity to lock in savings on refinancings.

2013	**Number of Properties**	**NOI (2012)**	**Principal Balance (at maturity)**
Apartments with debt maturing in 2013	6	$3,493	$26,778
MHCs with debt maturing in 2013	1	70	700
2013 debt maturities	7	$3,563	$27,478
2014			
Apartments with debt maturing in 2014	41	$17,226	$125,876
MHCs with debt maturing in 2014	9	2,639	16,638
2014 debt maturities	50	$19,865	$142,514

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).

The Company's $10.0 million of unsecured subordinated debentures expired, and were repaid, on January 4, 2013, and consisted of three tranches of $2.5 million, $2.5 million, and $5.0 million, bearing interest at 5.92%, 6.06% and 6.33%, respectively. Related warrants associated with the subordinated debentures also expired on January 4, 2013.

Construction Loans

At September 30, 2013, the Company had access to a floating rate non-revolving demand construction loan totaling $14.8 million for the purpose of financing the development of The Plaza and payments are made monthly on an interest-only basis. The construction loan has an interest rate of prime plus 0.75%. The construction loan will be repaid in full and converted into a CMHC insured mortgage once rental targets have been achieved. As at September 30, 2013, $14.8 million was drawn at an interest rate of 3.75% (December 31, 2012 - $14.1 million).

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 basis points on prime rate advances or 225 basis points 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 September 30, 2013, 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, 2012 - $Nil).

Operating Facility

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 September 30, 2013, the Company had letters of credit totaling $0.5 million outstanding against this facility (December 31, 2012 - $0.3 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

Shareholders' Equity

For the three and nine months ended September 30, 2013, 54,933 and 111,849 stock options were exercised for cash proceeds of $0.4 million and $0.8 million. There were also 9,359 restricted share units redeemed for common shares during the quarter. Killam pays a dividend of $0.04833 per share per month ($0.58 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 nine months ended September 30, 2013, the Company issued 78,940 and 233,573 common shares under the DRIP with a value of $0.8 million and $2.7 million (three and nine months ended September 30, 2012 - 78,940 and 245,422 common shares with a value of $1.4 million and $3.4 million). For both the three and nine months ended September 30, 2013, the average DRIP participation rate was 9% and 11% (2012 - 18% and 16%).

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 2012 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 2012 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 2012 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred taxes. During the most recent interim period, the Company adopted IAS 1, IFRS 10, IFRS 11, IFRS 12 and IFRS 13 as disclosed by note 2(c) of the unaudited condensed consolidated financial statements. Except for the adoption of the new standards mentioned above, there have been no changes to the Company's policies or procedures and 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 Corporation'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 Corporation 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 October 18, 2013, the Company announced a dividend of $0.04833 per share, payable on November 15, 2013, to shareholders of record on October 31, 2013.

On October 30, 2013, Killam entered into an unconditional agreement to sell a New Brunswick MHC portfolio of 10 communities totaling 2,308 sites, with a scheduled closing date of November 29, 2013. The total sale price is $69.0 million.