# Management's Discussion & Analysis

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

## TABLE OF CONTENTS

# Management's Discussion & Analysis

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

## PART I

## Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the years ended December 31, 2013, and 2012. The consolidated financial statements for the years ended December 31, 2013, and 2012, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with the Company's 2013 Annual Information Form, are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at November 4, 2014.

## Forward-looking Statements

Certain statements in this MD&A constitute "forward-looking statements". In some cases, forward-looking statements can be identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "potential", "continue" or the negative of these terms or other comparable terminology, and by discussions of strategies that involve risks and uncertainties. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward looking statements, including: competition, national and regional economic conditions and the availability of capital to fund further investments in Killam's business. Further information regarding these risks, uncertainties and other factors may be found under the heading "Risk Management" in this MD&A and in the Company's most recent Annual Information Form. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements contained, or incorporated by reference, in this MD&A.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events may not occur. Although Management believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated. Neither Killam nor any other person assumes responsibility for the accuracy and completeness of any forward-looking statements, and no one has any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, circumstances, or such other factors which affect this information, except as required by law. The forward-looking statements in this document are provided for the limited purpose of enabling current and potential investors to evaluate an investment in the Company. Readers are cautioned that such statements may not be appropriate and should not be used for any other purpose.

## Non-IFRS Measures

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

- Net operating income ("NOI") is calculated by the Company as income from property operations. The use of NOI when referring to a particular segment is calculated as property revenue less property operating costs for that segment.
- Funds from operations ("FFO") are calculated by the Company as net income plus deferred tax expense, depreciation on owner-occupied property and tax planning costs relating to the Company's potential REIT conversion, less fair value gains, gain on disposition and non-controlling interest. Killam's definition of FFO is calculated in accordance with the REALpac definition except for the add back of REIT tax planning costs as noted above as REALpac does not address this specific type of adjustment.
- Adjusted funds from operations ("AFFO") are calculated by the Company as FFO less the industry standard of $450 per apartment unit for "maintenance" versus "NOI enhancing" related capital costs and $100 per Manufactured Home Community ("MHC") site, although the MHC industry does not have a standard amount for "maintenance" related capital costs.
- Same store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2014 and 2013 (92% of the portfolio based on the September 30, 2014 unit count).
- Capitalization Rate ("cap-rate") is the rate calculated by dividing the forecasted NOI from a property by the property's purchase price.
- Interest coverage is calculated by dividing the earnings before interest, tax, depreciation, and fair value adjustments by interest expense.
- Debt service coverage is calculated by dividing the earnings before interest, tax, depreciation, and fair value adjustments by interest expense and principal mortgage repayments.

## PART II

## Business Overview

Killam Properties Inc., based in Halifax, Nova Scotia ("NS"), is one of Canada's largest residential landlords, owning, operating, managing and developing multi-family residential and Manufactured Home Community ("MHC") properties. Killam's 169 apartment properties are located in Atlantic Canada's six largest urban centres and in Ontario ("ON"). The Company's 35 MHCs are located in Ontario and Atlantic Canada. The value of Killam's real estate assets at September 30, 2014, was $1.6 billion. Killam is focused on increasing FFO per share, growing its portfolio and maximizing the value of its properties.

Killam was founded in 2000, based on the recognition of an opportunity to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam's first apartment was purchased in 2002 and its first MHC was purchased in 2003. From 2002 to 2009, Killam's apartment portfolio grew through the acquisition of properties in Atlantic Canada's six largest cities, namely Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown. Killam is now Atlantic Canada's largest residential landlord, with a 13.5% market share of the multi-family rental units in these core markets. Killam entered the Ontario apartment market in 2010, and today has investments in fourteen properties in the province, including assets in Toronto, Ottawa, London and Cambridge. Killam plans to expand its presence in Ontario with additional acquisitions and developments. Since 2010, Killam has complemented its acquisition program with the construction of apartment buildings, completing five projects that total 331 units to-date. Currently, the Company has two projects under construction totalling 224 units with expectations to be completed in Q4-2014 and 2015. The apartment business is Killam's largest business segment, accounting for 89% of the Company's NOI from property operations and equity income for the nine months ended September 30, 2014. At September 30, 2014, Killam's apartment portfolio consisted of 13,057 units.

In addition, the Company owns MHCs, also known as land-lease communities or trailer parks. Killam owns the land and infrastructure supporting each community and leases the lots to tenants, who own their own homes and pay Killam a monthly site rent. Killam owns 35 communities (5,165 sites) which accounted for 11% of Killam's NOI for the nine months ended September 30, 2014.

## Key Performance Indicators (KPIs)

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

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

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

3) Occupancy – Management is focused on maximizing occupancy levels while also managing the impact of higher rents. This measure considers units rented as a percentage of total stabilized units at a point in time.

4) Same Store NOI Growth – This measure considers the Company's ability to increase the NOI at properties that it has owned for equivalent periods quarter-over-quarter, removing the impact of acquisitions, dispositions, developments and other non same store operating adjustments.

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

6) Debt to Total Assets – Killam measures its debt levels as a percentage of total assets and works to ensure that the debt to total assets remains at a range of 55% to 65%.

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

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

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

# Management's Discussion & Analysis

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

## Financial and Operational Highlights

The following table presents a summary of Killam's financial and operating performance for the three and nine months ended September 30, 2014 and 2013:

### Results of Operations

| | | Three months ended September 30, | | | Nine months ended September 30, | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | Change | **2014** | 2013 | Change |
| Property revenue | **$37,777** | $37,095 | 1.8% | **$109,360** | $104,853 | 4.3% |
| NOI | **$23,773** | $23,250 | 2.2% | **$62,834** | $61,644 | 1.9% |
| Income before fair value gains, gain on disposition and income taxes | **$13,145** | $11,864 | 10.8% | **$30,492** | $30,261 | 0.8% |
| Fair value gains | **$13,382** | $2,407 | 456.0% | **$21,582** | $26,897 | (19.8)% |
| Net income applicable to common shareholders | **$20,491** | $12,117 | 69.1% | **$39,031** | $44,323 | (11.9)% |
| Earnings per share (basic) | **$0.37** | $0.22 | 68.2% | **$0.71** | $0.82 | (13.4)% |
| FFO | **$12,912** | $11,668 | 10.7% | **$29,911** | $28,958 | 3.3% |
| FFO per share (basic) | **$0.24** | $0.22 | 9.1% | **$0.55** | $0.54 | 1.9% |
| FFO per share (diluted) | **$0.22** | $0.21 | 4.8% | **$0.54** | $0.53 | 1.9% |
| AFFO per share (basic) | **$0.21** | $0.19 | 10.5% | **$0.46** | $0.45 | 2.2% |
| AFFO per share (diluted) | **$0.20** | $0.19 | 5.3% | **$0.46** | $0.45 | 2.2% |
| Weighted average shares outstanding (basic) (000's) | **54,917** | 54,266 | 1.2% | **54,759** | 54,058 | 1.3% |

### Same Store Results

| | | Three months ended September 30, | | | Nine months ended September 30, | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | Change | **2014** | 2013 | Change |
| Same store revenue | **$33,250** | $32,711 | 1.6% | **$96,922** | $95,320 | 1.7% |
| Same store expenses | **(12,441)** | (12,140) | 2.5% | **(41,627)** | (39,341) | 5.8% |
| Same store NOI | **$20,809** | $20,571 | 1.2% | **$55,295** | $55,979 | (1.2)% |

### Balance Sheet

| | **As at September 30, 2014** | As at December 31, 2013 | Change |
|---|---|---|---|
| Investment properties | **$1,602,655** | $1,476,116 | 8.6% |
| Total assets | **$1,647,854** | $1,532,431 | 7.5% |
| Total liabilities | **$1,017,555** | $928,371 | 9.6% |
| Total equity | **$630,299** | $604,060 | 4.3% |

### Ratios

| | **As at September 30, 2014** | As at December 31, 2013 | Change |
|---|---|---|---|
| Total debt to total assets | **53.6%** | 52.9% | 70 bps |
| Weighted average mortgage interest rate | **3.76%** | 4.05% | (29) bps |
| Weighted average years to debt maturity | **4.5** | 3.9 | 0.6 years |
| Interest coverage (rolling twelve months) | **2.05x** | 2.08x | (1.4)% |
| Debt service coverage (rolling twelve months) | **1.30x** | 1.34x | (3.0)% |

# Management's Discussion & Analysis

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

## Summary of Q3-2014 Results and Operations

**FFO per Share Growth of 9.1%**

Killam generated FFO per share growth of 9.1% quarter-over-quarter earning $0.24 in Q3-2014 compared to $0.22 during Q3-2013. The growth was attributable to positive same store property NOI growth, contributions from completed developments and acquisitions, and interest expense savings from refinancings. These positive contributions were partially offset by a reduction in MHC earnings associated with the New Brunswick MHC sale in November 2013.

**Same Store NOI Growth of 1.2%**

Killam achieved positive same store NOI growth of 1.2% during Q3-2014 generated from positive revenue growth across all markets despite a slight decrease in occupancy quarter-over-quarter. Killam achieved a 1.5% increase in net revenues for the apartment portfolio and a 2.5% increase in net revenues for the MHC portfolio. Same store total property expenses increased 2.5% in Q3-2014; savings in operating expenses offset an 11.4% increase in utility costs.

**Funds from MHC Sale Fully Redeployed**

On September 24, 2014, Killam acquired a 50% interest in Kanata Lakes Apartments II, a newly constructed 152-unit building located in Ottawa, ON. The purchase price was $48.7 million, with Killam's 50% ownership interest being $24.4 million. The property is the second phase of a four-phase complex having a shared clubhouse. With the completion of this acquisition, Killam has fully deployed the $42.6 million of cash generated from the 2013 MHC sale. The timing of the redeployment resulted in short-term FFO per share dilution.

**Developments Contribute Positively to FFO per Share**

Positive FFO growth of $0.3 million from developments completed in 2013 was achieved during the third quarter. Of the four buildings and 282 units completed in 2013, all but 12 units have been leased.

**Interest Cost Savings**

Killam continued to benefit from interest rate savings on mortgage refinancings. During Q3-2014 Killam successfully refinanced $31.1 million of maturing mortgages at a weighted average interest rate of 2.85%, 173 bps lower than the weighted average interest rate prior to refinancing. During the quarter, Killam saved $0.4 million in interest costs as a result of refinancings throughout the last year.

**Fair Value Gains on Investment Properties**

Killam recorded fair value gains of $13.4 million during Q3-2014 resulting from cap-rate compression mainly in the Nova Scotia and Ontario markets. In Nova Scotia cap-rates declined on average 25 bps for assets located in downtown Halifax, while certain assets located in Cambridge and Ottawa also realized a 25 bps decrease.

# Management's Discussion & Analysis

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

## Performance Compared to 2014 Key Objectives

| **Consolidation of Multi-family Residential Real Estate Market and Increase Investment in New Properties** | |
|---|---|
| 2014 Target | Complete a minimum of $75 million in acquisitions and continue to develop two current development projects on schedule and within 5% of budget. |
| 2014 Performance | Year-to-date, Killam has completed $63.1 million in acquisitions, representing 84% of the $75 million acquisition target. Killam acquired five apartment buildings during the first nine months of the year, representing 330 units, for a total of $59.5 million. In addition, Killam acquired a four-unit property in Halifax with land for future development for $1.5 million, acquired the leasehold interest in the land under an existing Killam apartment for $1.6 million and acquired an additional 1.7% interest in Garden Park Apartments for $0.5 million.<br><br>Killam’s two development projects underway, representing a total value of $47.5 million, remain on budget and are scheduled to be completed within one to three months of their original schedules. |

| **Geographic Diversification** | |
|---|---|
| 2014 Target | Killam's goal is to invest more than 50% of its 2014 acquisition program outside Atlantic Canada, with a focus on Ontario. |
| 2014 Performance | Year-to-date, 58% of Killam's $63.1 million of acquisitions have been in Ontario. Killam acquired two adjacent properties in Ottawa, 50 Selkirk Street, a 75-unit building and 350 Mayfield Avenue, a 61-unit building in March 2014. Killam also acquired a 50% interest in a newly constructed 156-unit building in Ottawa in September 2014. This increased Killam’s Ontario portfolio's percentage to 12.3% of the Company's total apartment NOI and equity income by quarter-end. The Company continues to seek opportunities to acquire multi-family residential apartments outside of Atlantic Canada. |

| **Growth in Same Store Net Operating Income** | |
|---|---|
| 2014 Target | Same Store NOI growth of 0% to 2%. |
| 2014 Performance | Killam achieved positive same store NOI growth of 1.2% in Q3. High natural gas costs during the first quarter significantly impacted operating costs and year-to-date NOI is negative 1.2%. With net revenue growth and moderate expense growth projected, Killam expects to achieve same store NOI growth between 0% and 1% for the fourth quarter and has reduced its same store NOI projection for the year to between negative 1% to 0%. |

# Management's Discussion & Analysis

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

## Outlook

**Same Store Growth**

Management expects to generate revenue growth of between 1.5% and 2.0% during the next year, primarily from increased rental rates. Occupancy gains are expected to be moderate as Killam's consolidated same store occupancy levels for the year are expected to remain similar to levels experienced throughout 2014 of between 94.5% and 96.0%. Moderate increases to operating expenses are expected to result in positive NOI growth in 2015.

**Economic Projects to Fuel Growth in Atlantic Canada**

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

| Province | Project(1) | Commitment/ Size ($) | Term | Estimated # of Jobs | Comments |
|---|---|---|---|---|---|
| **Nova Scotia** | Irving Shipbuilding Contract | $25 billion | 25-year contract | 1,000-1,500 direct up to 10,000 indirect | Presently, Irving is investing approximately $350 million modernizing the Halifax Shipyard to begin cutting steel in the second half of 2015. Peak activity is expected in the early 2020's. |
| | Energy Exploration off NS Coast | $2.1 billion (British Petroleum and Shell Canada) | 6 years (exploration phase) | Not available | This offshore oil activity has the potential for long-term investment and employment opportunities in the region. Both BP and Shell have completed their seismic program and expect to start drilling programs in 2015 (Shell) and 2017 (BP). |
| | Various Halifax Construction Projects | $1-2 billion | 3-4 years | Not available | Investments made in the new convention centre, two new military facilities, and new downtown library. |
| **New Brunswick** | Energy East Pipeline | $12 billion (proposed total project cost) | 6 years (development phase) | 3,700 during development; 385 during 40-year operating phrase | Regulatory applications are expected to be submitted during 2014. An estimated $2.8 billion GDP contribution for NB during this project. |
| | Saint John Mill Upgrade | $450 million | 4-5 years | 600 direct | Two phase upgrade began in the spring of 2014, corresponding with a 20% increase in the NB softwood that will be made available to the forestry industry. |
| **Newfoundland and Labrador** | Muskrat Falls Hydro Project | $7.8 billion | 5 years | 1,500 direct with peak of 3,100 | Construction of the 824 megawatt hydroelectric dam is underway. |
| | Maritime Link | $1.5 billion | 4 years | 300 direct | Subsea cable designed to transport electricity from NL to NS has been approved. Construction began in 2014. |
| | Hebron Oil Project | $14 billion | 10 years | 3,000 - 3,500 direct | Construction is taking place. First oil is anticipated in 2017 with development drilling expected to continue until 2024. |

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

**Natural Gas Pricing to Remain Uncertain in Near-Term**

Insufficient natural gas pipeline and storage capacity in New England and Atlantic Canada, coupled with increased demand in New England, has resulted in volatile natural gas prices over the last two years. Management is encouraged by the fact the Northeastern US is also exposed to these gas supply constraints and resulting price volatility, so there is strong motivation to find a permanent solution. Projects are already underway to address the pricing issue, including the construction of a natural gas storage facility in Nova Scotia by AltaGas and proposed pipeline expansions in New England.

Drilling of three natural gas storage wells, located 60 kilometers from Halifax, began in August 2014 and may be ready for gas storage starting in the spring of 2017. The initial capacity of the storage facility will be 4.5 billion cubic feet (Bcf), with the potential to expand to 10 Bcf. Heritage Gas ('Heritage"), Killam's natural gas distributor in Nova Scotia and a subsidiary of AltaGas, is expected to complete a 20-year storage agreement for 4 Bcf, subject to regulatory approval. The project will allow Heritage to purchase and store natural gas at low summer rates and access the gas during periods of higher pricing during cold weather, resulting in more affordable natural gas prices in Nova Scotia during the winter months.

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

To mitigate natural gas price volatility, Killam's NS gas distributor has supply contracts in place for approximately 65% of its winter gas requirement, helping to reduce Killam's exposure to the volatile Algonquin Citygate day markets. This compares with approximately 90% of fixed contracts for the winter of 2014. The reduction in the percentage of fixed contracts for 2015 is due to high forward prices following last year's volatility, and an expectation that market prices will not be as high as last winter, when extremely cold weather increased demand for natural gas. Based on the supply contracts in place for 2015, Management expects natural gas prices in Q1-2015 to be above Q1-2014 pricing levels. Pricing levels for the rest of 2015 is expected to be lower than the 2014 pricing levels.

Management analyzed the opportunity to fix a portion of its NB gas requirements for the 2015 heating season with a fixed physical contract, as its New Brunswick gas supplier does not forward-fix its rates. Due to forward pricing levels above the record prices Killam paid last year, Management has not entered into any fixed contracts. Management expects pricing to be at or below pricing experienced last year in New Brunswick for the winter months.

**Interest Expense Savings**

Killam has $26.9 million of apartment debt maturing during the remainder of 2014 at a weighted average interest rate of 4.81% and $87.7 million in fiscal 2015 with a weighted average interest rate of 4.46%. Based on current bond yields and Canadian Mortgage and Housing Corporation ("CMHC") insured loans, rates could be fixed at approximately 2.4% for 5-year debt and 3.0% for 10-year debt. At current interest rates, the Company would generate annualized interest savings on mortgages refinanced during the remainder of 2014 and 2015 of approximately $1.7 million with a balanced mixed of 5-year and 10-year mortgage terms.

# Management's Discussion & Analysis

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

## Portfolio Summary

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

### Apartment Properties

| | Units(1) | Number of Properties | % of Apartment NOI and Equity Income |
|---|---|---|---|
| **Nova Scotia** | | | |
| Halifax(2) | 5,056 | 55 | 45.0% |
| Sydney | 139 | 2 | 1.1% |
| | 5,195 | 57 | 46.1% |
| **New Brunswick** | | | |
| Moncton | 1,629 | 31 | 10.3% |
| Fredericton | 1,394 | 20 | 9.2% |
| Saint John | 1,143 | 13 | 5.2% |
| Miramichi | 96 | 1 | 0.7% |
| | 4,262 | 65 | 25.4% |
| **Ontario**(3) | | | |
| Ottawa | 780 | 9 | 2.9% |
| London | 264 | 2 | 2.7% |
| Cambridge | 225 | 2 | 3.3% |
| Toronto | 378 | 2 | 3.4% |
| | 1,647 | 15 | 12.3% |
| **Newfoundland and Labrador** | | | |
| St. John's | 813 | 11 | 7.6% |
| Grand Falls | 148 | 2 | 1.0% |
| | 961 | 13 | 8.6% |
| **Prince Edward Island** | | | |
| Charlottetown | 906 | 17 | 7.0% |
| Summerside | 86 | 2 | 0.6% |
| | 992 | 19 | 7.6% |
| **Total** | **13,057** | **169** | **100.0%** |

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

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

(3) Killam owns and manages four buildings located in Ontario through joint arrangements, with Killam having a 25% ownership interest in three properties and 50% ownership interest in one property. Killam's ownership interest represents 194 of the 624 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, 2014:

| | Sites | Number of Communities | % of MHC NOI |
|---|---|---|---|
| Nova Scotia | 2,626 | 16 | 50.9% |
| Ontario | 2,145 | 16 | 43.4% |
| New Brunswick | 224 | 1 | 2.6% |
| Newfoundland and Labrador | 170 | 2 | 3.1% |
| **Total** | **5,165** | **35** | **100.0%** |

# Management's Discussion & Analysis

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

## PART III

## Q3-2014 Financial Overview

### Consolidated Results

**For the three months ended September 30,**

| | Total Portfolio | | | Same Store | | | Non Same Store | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Property revenue | **$37,777** | $37,095 | 1.8% | **$33,250** | $32,711 | 1.6% | **$4,527** | $4,385 | 3.2% |
| Property expenses | | | | | | | | | |
| Operating expenses | **(6,132)** | (6,399) | (4.2)% | **(5,459)** | (5,563) | (1.9)% | **(673)** | (837) | (19.6)% |
| Utility and fuel expenses | **(3,606)** | (3,375) | 6.8% | **(3,303)** | (2,964) | 11.4% | **(303)** | (410) | (26.1)% |
| Property taxes | **(4,266)** | (4,071) | 4.8% | **(3,679)** | (3,613) | 1.8% | **(587)** | (458) | 28.2% |
| Total property expenses | **(14,004)** | (13,845) | 1.1% | **(12,441)** | (12,140) | 2.5% | **(1,563)** | (1,705) | (8.3)% |
| NOI | **$23,773** | $23,250 | 2.2% | **$20,809** | $20,571 | 1.2% | **$2,964** | $2,680 | 10.6% |
| Operating margin | **62.9%** | 62.7% | 20 bps | **62.6%** | 62.9% | (30) bps | **65.5%** | 61.1% | 440 bps |

**For the nine months ended September 30,**

| | Total Portfolio | | | Same Store | | | Non Same Store | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | % Change | 2014 | 2013 | % Change | 2014 | 2013 | % Change |
| Property revenue | **$109,360** | $104,853 | 4.3% | **$96,922** | $95,320 | 1.7% | **$12,438** | $9,533 | 30.5% |
| Property expenses | | | | | | | | | |
| Operating expenses | **(18,300)** | (18,015) | 1.6% | **(16,313)** | (16,112) | 1.2% | **(1,987)** | (1,903) | 4.4% |
| Utility and fuel expenses | **(15,419)** | (13,366) | 15.4% | **(14,222)** | (12,334) | 15.3% | **(1,197)** | (1,032) | 16.0% |
| Property taxes | **(12,807)** | (11,828) | 8.3% | **(11,092)** | (10,895) | 1.8% | **(1,715)** | (933) | 83.8% |
| Total property expenses | **(46,526)** | (43,209) | 7.7% | **(41,627)** | (39,341) | 5.8% | **(4,899)** | (3,868) | 26.7% |
| NOI | **$62,834** | $61,644 | 1.9% | **$55,295** | $55,979 | (1.2)% | **$7,539** | $5,665 | 33.1% |
| Operating margin | **57.5%** | 58.8% | (130) bps | **57.1%** | 58.7% | (160) bps | **60.6%** | 59.4% | 120 bps |

Total property revenue for the three and nine months ended September 30, 2014, excluding the 25% ownership interest in the three properties held through one of the Company's joint arrangements, was $37.8 million and $109.4 million. This translates into a 1.8% and 4.3% increase in revenue over the same periods in 2013, generated through revenue from acquisitions and developments, increased rental rates and lower vacancy, partially offset by increased rental incentives and lost revenues from MHC dispositions.

Killam's total property expenses increased 1.1% and 7.7% for three and nine months ended September 30, 2014, compared to the same periods in 2013. In the third quarter, savings in property operating expenses were offset by increases in both utility and fuel expenses as well as higher property taxes. Year-to-date, utility and fuel expenses increased 15.3%, comprising the majority of the property operating expense increase in the period, and can be attributed to higher natural gas prices in the first quarter.

Same store property NOI reflects the 183 stabilized properties that Killam has owned for equivalent periods in 2014 and 2013. The same store analysis includes 16,725 units and sites, or 92% of Killam's portfolio. Home sales are excluded from this analysis. Same store properties realized growth in the third quarter of 2014 with a 1.2% increase in NOI. This increase is a result of a 1.6% increase in net revenue quarter-over-quarter, partially offset by a 2.5% increase in property operating expenses. These variances are discussed in more detail in the Apartment and MHC sections of the MD&A.

Non same store property NOI consists of properties acquired in both 2013 and 2014, MHC properties sold in Q4-2013, development projects completed in 2013, other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items. Details of properties acquired in 2014 are found on page 25.

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

## Apartment Results

**For the three months ended September 30,**

| | Total Portfolio | | | Same Store | | | Non Same Store | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Property revenue | **$33,232** | $31,043 | 7.1% | **$28,878** | $28,444 | 1.5% | **$4,354** | $2,599 | 67.5% |
| Property expenses | | | | | | | | | |
| Operating expenses | **(5,150)** | (5,173) | (0.4)% | **(4,538)** | (4,614) | (1.6)% | **(612)** | (558) | 9.7% |
| Utility and fuel expenses | **(3,143)** | (2,749) | 14.3% | **(2,852)** | (2,527) | 12.9% | **(291)** | (222) | 31.1% |
| Property taxes | **(4,093)** | (3,795) | 7.9% | **(3,542)** | (3,481) | 1.8% | **(551)** | (314) | 75.5% |
| Total property expenses | **(12,386)** | (11,717) | 5.7% | **(10,932)** | (10,622) | 2.9% | **(1,454)** | (1,094) | 32.9% |
| NOI | **$20,846** | $19,326 | 7.9% | **$17,946** | $17,822 | 0.7% | **$2,900** | $1,505 | 92.7% |
| Operating margin | **62.7%** | 62.3% | 40 bps | **62.1%** | 62.7% | (60) bps | **66.6%** | 57.9% | 870 bps |

**For the nine months ended September 30,**

| | Total Portfolio | | | Same Store | | | Non Same Store | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Property revenue | **$98,096** | $89,322 | 9.8% | **$86,385** | $85,069 | 1.5% | **$11,711** | $4,252 | 175.4% |
| Property expenses | | | | | | | | | |
| Operating expenses | **(15,689)** | (14,576) | 7.6% | **(13,862)** | (13,575) | 2.1% | **(1,827)** | (1,001) | 82.5% |
| Utility and fuel expenses | **(14,271)** | (11,709) | 21.9% | **(13,110)** | (11,313) | 15.9% | **(1,161)** | (395) | 193.9% |
| Property taxes | **(12,287)** | (11,001) | 11.7% | **(10,674)** | (10,496) | 1.7% | **(1,613)** | (506) | 218.8% |
| Total property expenses | **(42,247)** | (37,286) | 13.3% | **(37,646)** | (35,384) | 6.4% | **(4,601)** | (1,902) | 141.9% |
| NOI | **$55,849** | $52,036 | 7.3% | **$48,739** | $49,685 | (1.9)% | **$7,110** | $2,350 | 202.6% |
| Operating margin | **56.9%** | 58.3% | (140) bps | **56.4%** | 58.4% | (200) bps | **60.7%** | 55.3% | 540 bps |

## Apartment Revenue

Total apartment revenue for the three and nine months ended September 30, 2014, was $33.2 million and $98.1 million, a 7.1% and 9.8% increase over the same periods in 2013. This growth was attributable to acquisitions, the completion of four development projects during 2013 and growth in rental rates.

Same store apartment property revenue increased 1.5% for both the three and nine months ended September 30, 2014, following a 1.3% increase in rental rates. As well, Killam realized higher occupancy throughout the first nine months of 2014 compared to the same period of 2013, with an average 94.7% occupancy year-to-date, a 70 bps improvement over the nine months ended September 30, 2013.

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

# Management's Discussion & Analysis

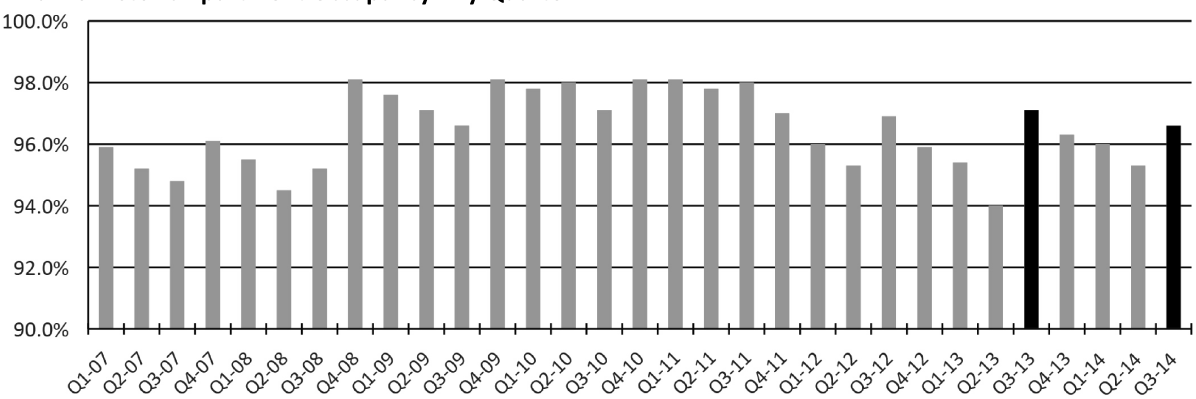
***Dollar amounts in thousands of Canadian Dollars (except as noted)***

## Apartment Occupancy and Average Rent Analysis by Core Market

| | **As at September 30, 2014** | | | As at September 30, 2013 | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Units** | **Occupancy(1)** | **Average Rent** | Units | Occupancy(1) | Average Rent | Change Occ. (bps) | % Change Avg Rent |
| Halifax, NS | 5,056 | 96.3% | $944 | 4,970 | 97.9% | $919 | (160) bps | 2.7% |
| Moncton, NB | 1,629 | 94.5% | 835 | 1,512 | 96.6% | 824 | (210) bps | 1.3% |
| Fredericton, NB | 1,394 | 96.9% | 896 | 1,394 | 97.3% | 896 | (40) bps | -% |
| Saint John, NB | 1,143 | 96.8% | 746 | 1,143 | 92.1% | 749 | 470 bps | (0.4)% |
| St. John's, NL | 813 | 98.2% | 874 | 813 | 99.1% | 845 | (90) bps | 3.4% |
| Charlottetown, PE | 906 | 99.1% | 883 | 906 | 97.2% | 877 | 190 bps | 0.7% |
| Ontario | 1,647 | 97.1% | 1,263 | 1,359 | 97.4% | 1,245 | (30) bps | 1.4% |
| Other Atlantic | 469 | 97.0% | 812 | 431 | 97.0% | 789 | - bps | 2.9% |
| **Total Apartments (weighted average)** | **13,057** | **96.6%** | **$935** | 12,528 | 97.1% | $913 | (50) bps | 2.4% |

(1) Includes all stabilized properties.

**Killam's Historic Apartment Occupancy - By Quarter**




Killam's apartment units were 96.6% occupied at September 30, 2014, up from 95.3% at the end of June 2014. This represents Killam's highest quarter-end occupancy during the last four quarters, as Killam typically experiences its highest occupancy in September. Occupancy was 97.1% at September 30, 2013. Despite a year-over-year 50 bps decline in occupancy at the end of September, Killam's same store properties realized 94.5% of their rental revenue potential during Q3-2014, a 50 basis point improvement from 94.0% during Q3-2013.

Halifax is Killam's largest rental market, representing 45.0% of the Company's apartment NOI and equity income. Killam's occupancy in Halifax at September 30, 2014, was 96.3%, up 160 basis points from 94.7% at June 30, 2014. However, occupancy at September 30, 2013, was 160 bps higher, at 97.9%. The Halifax rental market has become more competitive over the last two years with an increase in the amount of new rental units being introduced into the market. From 1999 to 2010, new apartment starts in Halifax averaged approximately 650 units per year (on a base of approximately 40,000 units). Since 2011 the number of annual starts has averaged 1,400 units. Year-to-date for 2014, CMHC has reported a decline in apartment starts in the city (562 apartment unit starts during the first eight months of 2014 compared to 1,027 during the first eight months of 2013), as reported in their September 2014 "Halifax Housing Now" report. There remains over 2,000 apartment units under construction in the city, which now has 43,900 apartment units, as reported by CMHC.

The increase in new developments has been fuelled by low interest rates and an expectation of increasing demand for apartments from an aging and growing population base. The $25 billion Irving Shipbuilding contract is the largest project expected to contribute to economic and population growth in the city. The 25-year contract was awarded in October 2011 and Irving Shipbuilding is currently investing $350 million to upgrade the shipyard. In September 2014 Irving Shipbuilding announced that it is on schedule with the project and expects to officially sign the contract to build the Arctic offshore patrol ships, the first six ships of the contract, in January 2015 and to begin cutting steel for the first round of vessels in September 2015. The shipbuilding contact is expected to generate 1,000 to 1,500 direct jobs and up to 11,500 indirect jobs, with the peak employment years in the early 2020s.

In addition, Halifax's demographics include large groups of empty nesters and seniors who are beginning to transition from home ownership into apartment-style living. The majority of the new supply introduced into the market in the last two years caters to this demographic, with spacious units of 1,100 square feet and over and monthly rents of $1,300 plus. It typically takes approximately two years for developments to be completed, with 2013 being the first year that a sizeable increase in new units came to the market. CMHC reported that in 2013 1,681 apartment new units were completed, representing a 4.1% increase in the amount of apartment units in the city, almost double the 876 units completed in 2012. Year-to-date, 377 new rental apartment units have been completed in Halifax, compared to 477 in the same period in 2013.

The increased product has resulted in a more competitive rental environment in Halifax in certain submarkets. Killam has responded by focused marketing and leasing programs allowing Killam to achieve increased rental rates which more than offset increased vacancy in the quarter. Halifax apartment revenue was up 33 bps in the quarter.

Killam's three core markets in NB represent 25.4% of the Company's apartment NOI and equity income. Saint John has been Killam's strongest performing market in NB over the last year, achieving improved occupancy each quarter. At September 30, 2014, Saint John's apartment units were 96.8% occupied, a 470 basis point improvement from September 30, 2013. Saint John achieved Killam's highest same store rental revenue growth in the quarter, up 6.8%. The year-over-year improvement is attributable to an expanded leasing team, an increase in economic investment in the city, despite a slight decrease in rental rates (down 0.4% from a year earlier). Saint John had been the Company's softest market in 2012 and the first half of 2013, however there are encouraging signs of economic growth in the city, including a $450 million upgrade to the local saw mill and the potential for the $12 billion Energy East Pipeline, which is proposed to bring oil from Western Canada to Saint John, home to Canada's largest refinery.

Following occupancy improvements in both Q1 and Q2, occupancy levels in Moncton were down in September 2014, to 94.5%, compared to 96.6% in September 2013. Moncton, like Halifax, has experienced higher than normal levels of apartment construction in recent years, leading to a more competitive apartment market and higher vacancy levels as reported by CMHC. Killam continues to be successful at outperforming the market with increased marketing programs, including incentive offerings in response to market trends, and has successfully increased revenue by 90 basis points in the city, despite a decrease in occupancy levels.

Killam's Fredericton portfolio was 96.9% occupied at the end of September 2014, its highest occupancy in the year. This compares with 97.3% occupancy at September 2013. Despite the slight decline in occupancy, Killam's same store Fredericton portfolio achieved revenue growth of 1.3% during the quarter.

Killam's St. John's portfolio, which has led Killam's occupancy and revenue growth for the last three years, was 98.2% occupied at the end of Q3, up from 95.9% at the end of Q2-2014. Year-over-year occupancy levels were down in St. John's, partially attributable to a new 500-bed residence at Memorial University completed in early 2014. The St. John's portfolio achieved a 62 bps increase in revenue in Q3-2014 vs. Q3-2013, attributable to increased rental rates, up 3.3% over the last year, the highest in Killam's portfolio.

The Company's Charlottetown portfolio has had an improving occupancy trend since a change to the province's immigration program resulted in an initial occupancy drop in Q4-2012. At September 30, 2014, the Charlottetown portfolio was 99.1% occupied, up 190 bps from September 30, 2013, and the highest in Killam's apartment portfolio. Despite a small decline in rental rates in the market (down 0.6% year-over-year), PEI property revenue grew 3.0% in the quarter.

The Ontario portfolio represented 12.3% of Killam's apartment NOI and equity earnings during the first nine months of 2014. Killam has achieved improvement in occupancy levels in its Ontario portfolio over the last year and at September 30, 2014, achieved occupancy of 97.1%, compared to 97.4% at September 30, 2013. Ontario's same store rental revenue was up 3.7% during the third quarter.

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

## Apartment Expenses

Total same store property expenses increased 2.9% and 6.4% for the three and nine months ended September 30, 2014, driven primarily by an increase in utility and fuel expenses as a result of higher natural gas prices in Atlantic Canada. Property taxes have shown modest growth during the quarter and year-to-date as a result of successful property tax appeals.

Same store operating expenses were 1.6% lower for the three months ended September 30, 2014, compared to the same period in 2013. The decrease was mainly due to timing of maintenance expenses and property G&A, as well as savings in contract services. This was partially offset by increased advertising and salary costs. For the nine months ended September 30, 2014, same store operating expenses increased by 2.1% as the Company placed additional focus on advertising in competitive leasing markets, along with additional salary costs and increased contract service costs related to higher snow removal in various regions during the winter months.

### Utility and Fuel Expense - Same Store

**For the three months ended September 30,**

| | **2014** | 2013 | % Change |
|---|---|---|---|
| Natural gas | **$428** | $336 | 27.4% |
| Electricity | **1,169** | 1,060 | 10.3% |
| Water | **1,086** | 933 | 16.4% |
| Oil | **161** | 190 | (15.3)% |
| Other | **8** | 8 | - % |
| Total utility and fuel expenses | **$2,852** | $2,527 | 12.9% |

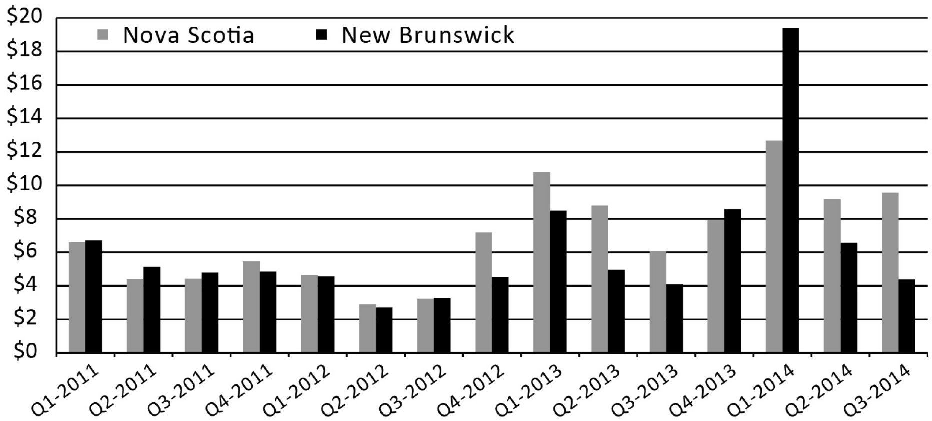
**For the nine months ended September 30,**

| | **2014** | 2013 | % Change |
|---|---|---|---|
| Natural gas | **$4,397** | $3,447 | 27.6% |
| Electricity | **4,465** | 3,977 | 12.3% |
| Water | **3,090** | 2,760 | 12.0% |
| Oil | **1,135** | 1,106 | 2.6% |
| Other | **23** | 23 | - % |
| Total utility and fuel expenses | **$13,110** | $11,313 | 15.9% |

Killam’s apartment properties are heated with a combination of natural gas (56%), electricity (36%) and oil (8%). Electricity costs at the unit level are typically paid directly by tenants, reducing Killam’s exposure to the majority of the 4,600 units heated with electricity. Fuel costs associated with natural gas or oil-fired heating plants are paid by Killam.

Killam’s same store natural gas costs increased by $0.1 million, or 27.4%, during Q3-2014. The increase was primarily attributable to higher quarter-over-quarter costs in NS. The average natural gas cost per gigajoule ("GJ") was up 33% in Q3-2014 compared to Q3-2013 due to the province’s gas distributor's annualized fixed rate contracts put in place in 2013. These contracts resulted in below market pricing in Q1-2014 and less volatility throughout the year, but a higher cost of natural gas in Q3-2014 compared to both Q3-2013 and market rates. These contracts ended in October 2014. Natural gas costs in NB remained low through the summer after record highs in Q1-2014.

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




The quarterly commodity charge for Nova Scotia and New Brunswick are included in the above graph. As noted in previous quarters, natural gas costs in New Brunswick and Nova Scotia have been volatile over the last two years due to pipeline capacity constraints and increased natural gas demand in New England driving up pricing at the Algonquin Citygate natural gas hub during periods of cold weather. These factors drove up pricing in Q1-2014, resulting in a $0.9 million, or 27.6%, increase in natural gas costs year-to-date. Management expects natural gas pricing in Atlantic Canada (and New England) to remain volatile during the winter months until 2018, when long-term solutions to the pipeline capacity issue are completed, as discussed in the Outlook section on page 7.

Electricity costs for Killam’s same store properties were up 10.3% in Q3-2014 as compared to the same period of 2013. The electricity costs represent common area electricity expenses, including heating expenses for electric buildings, and a portfolio of electrically heated units with heat included as part of the rental agreement. The increased cost in Q3-2014, and year-to-date, is attributable to a combination of higher electricity rates, an increase in the number of units with electricity included and colder weather in Q1 and Q2. Killam has increased the number of units with electricity included at certain NB properties to compete with the market. Killam prefers not to include electricity in rental rates and rents are typically increased to offset this additional expense; however, tenants are attracted to fixing the cost of electricity in their monthly rental payment.

Water expense for same store properties increased by 16.4% quarter-over-quarter. This increase was most prominent in Halifax, where water expense increased 24.8% in Q3-2014 as the second of two significant water rate increases came into effect in April 2014. Prior to the April increase, another water rate increase became effective July 2013, also reflected in the year-over-year price increases. Killam will continue to invest in water-saving initiatives to mitigate its exposure to these increased costs. Management does not expect similar rate increases in 2015.

Heating oil costs for Q3-2014 decreased 15.3% from Q3-2013 due to a fewer number of buildings using oil as a heat source in 2014 compared to 2013 because of Killam's conversions to natural gas. Year-to-date oil costs are up 2.7% as lower oil consumption was offset by increased rates and colder temperatures in the first half of the year.

Same store property taxes increased 1.8% in Q3-2014 and 1.7% year-to-date due to the positive impact of successful tax appeals. Killam expects future realty tax increases to be modest given that Killam's portfolio generally has up-to-date market assessments.

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

## Apartment Same Store NOI by City

Net revenue growth of 1.5%, partially offset by increased property operating expenses, generated same store apartment NOI of 0.7% for the three months ended September 30, 2014. Same store NOI results by city, as shown in the charts below, vary primarily depending on changes in occupancy levels in each market.

Year-to-date, same store apartment NOI is 1.9% lower than the comparable period of 2013 due to the impact of high natural gas costs in Atlantic Canada and the colder than normal heating season in Q1-2014. These year-to-date results by city are largely influenced by the higher heating costs experienced in all regions during the first three months of 2014.

**Same Store NOI Results by City**

**For the three months ended September 30,**

| | **2014** | 2013 | $ Change | % Change |
|---|---|---|---|---|
| Halifax | **$8,673** | $8,827 | $(154) | (1.7)% |
| Moncton | **1,750** | 1,776 | (26) | (1.5)% |
| Fredericton | **1,793** | 1,820 | (27) | (1.5)% |
| Ontario | **1,383** | 1,325 | 58 | 4.4% |
| St. John's | **1,242** | 1,212 | 30 | 2.5% |
| Charlottetown | **1,094** | 1,041 | 53 | 5.1% |
| Saint John | **1,326** | 1,173 | 153 | 13.0% |
| Other Atlantic locations | **685** | 648 | 37 | 5.7% |
| | **$17,946** | $17,822 | $124 | 0.7% |

**For the nine months ended September 30,**

| | **2014** | 2013 | $ Change | % Change |
|---|---|---|---|---|
| Halifax | **$23,528** | $24,257 | $(729) | (3.0)% |
| Moncton | **4,933** | 4,972 | (39) | (0.8)% |
| Fredericton | **4,950** | 5,247 | (297) | (5.7)% |
| Ontario | **4,127** | 3,980 | 147 | 3.7% |
| St. John's | **3,551** | 3,527 | 24 | 0.7% |
| Charlottetown | **2,856** | 2,826 | 30 | 1.1% |
| Saint John | **2,977** | 3,109 | (132) | (4.2)% |
| Other Atlantic locations | **1,817** | 1,767 | 50 | 2.8% |
| | **$48,739** | $49,685 | $(946) | (1.9)% |

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

Halifax's NOI declined 1.7% and 3.0% for the three and nine months ended September 30, 2014. Despite rental rate growth of 1.9%, increased vacancy partially offset this growth, generating an overall net revenue gain of 0.3% during Q3-2014. This improvement in net revenues was offset by higher water and natural gas rates, increased contract services, additional leasing initiatives to target higher vacancy and an increase in property tax assessments.

Moncton's NOI declined 1.5% and 0.8% for the three and nine months ended September 30, 2014. Rental rate growth of 1.1% partially offset by increased incentive offerings resulted in a 0.9% increase in net revenues for Q3-2014. Property expenses increased 3.6% for Q3-2014, driven by higher utility costs associated with the inclusion of unit electricity in rents as a rental incentive and an increase in property tax assessments.

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

Fredericton's NOI declined 1.5% and 5.7% for the three and nine months ended September 30, 2014. Rental rate growth of 0.8% along with reduced incentive offerings in this market resulted in a 1.3% increase in net revenues for Q3-2014. Property expenses increased 5.2% for the three month period ended September 30, 2014, driven by higher utility, salary and property tax costs.

Saint John, Ontario and Charlottetown recorded positive NOI growth of 13.0%, 4.4% and 5.1%, respectively, for the three month period ended September 30, 2014. This growth was attributed to both increased rental rates and occupancy improvements over the same period last year, with modest growth in property operating expenses.

St. John's also realized positive NOI growth of 2.5% for the third quarter of 2014. Same store rental rates increased 3.1%, partially offset by increased vacancy, resulting in 0.6% net revenue growth for the quarter. Lower property expenses were mostly attributable to the timing of property operating expenses.

Other Atlantic locations include seven properties in other cities in Atlantic Canada. These properties realized NOI growth of 5.7% for the three months ended September 30, 2014, due to rental rate increases of 2.2%, savings from successful property tax appeals and a reduction in discretionary operating expenses.

## MHC Results

**For the three months ended September 30,**

| | Total Portfolio | | | Same Store | | | Non Same Store | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Property revenue | **$4,407** | $5,916 | (25.5)% | **$4,372** | $4,267 | 2.5% | **$35** | $1,650 | (97.9)% |
| Property expenses | | | | | | | | | |
| Operating expenses | **(920)** | (1,187) | (22.5)% | **(921)** | (948) | (2.8)% | **1** | (239) | (100.4)% |
| Utility and fuel expenses | **(455)** | (618) | (26.4)% | **(451)** | (437) | 3.2% | **(4)** | (181) | (97.8)% |
| Property taxes | **(137)** | (247) | (44.5)% | **(137)** | (131) | 4.6% | **-** | (116) | (100.0)% |
| Total property expenses | **(1,512)** | (2,052) | (26.3)% | **(1,509)** | (1,516) | (0.5)% | **(3)** | (536) | (99.4)% |
| NOI | **$2,895** | $3,864 | (25.1)% | **$2,863** | $2,751 | 4.1% | **$32** | $1,114 | (97.1)% |
| Operating margin | **65.7%** | 65.3% | 40 bps | **65.5%** | 64.5% | 100 bps | **91.4%** | 67.5% | 2,390 bps |

**For the nine months ended September 30,**

| | Total Portfolio | | | Same Store | | | Non Same Store | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Property revenue | **$10,835** | $15,125 | (28.4)% | **$10,537** | $10,251 | 2.8% | **$298** | $4,875 | (93.9)% |
| Property expenses | | | | | | | | | |
| Operating expenses | **(2,459)** | (3,328) | (26.1)% | **(2,451)** | (2,537) | (3.4)% | **(8)** | (791) | (99.0)% |
| Utility and fuel expenses | **(1,119)** | (1,632) | (31.4)% | **(1,112)** | (1,020) | 9.0% | **(7)** | (611) | (98.9)% |
| Property taxes | **(421)** | (746) | (43.6)% | **(418)** | (399) | 4.8% | **(3)** | (347) | (99.1)% |
| Total property expenses | **(3,999)** | (5,706) | (29.9)% | **(3,981)** | (3,956) | 0.6% | **(18)** | (1,749) | (99.0)% |
| NOI | **$6,836** | $9,419 | (27.4)% | **$6,556** | $6,295 | 4.1% | **$280** | $3,126 | (91.0)% |
| Operating margin | **63.1%** | 62.3% | 80 bps | **62.2%** | 61.4% | 80 bps | **94.0%** | 64.1% | 2,990 bps |

Killam's MHC business accounted for 11% of NOI from property operations during the nine months ended September 30, 2014, compared to 15% for the same period in 2013. Property revenue from the MHCs decreased $1.5 million (or 25.5%) and $4.3 million (or 28.4%) for the three and nine months ended September 30, 2014, due to the sale of the New Brunswick MHC properties in November 2013. Killam's MHC properties were 98.4% occupied at September 30, 2014, consistent with the occupancy at September 30, 2013, for the Company's current MHC portfolio.

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

# Management's Discussion & Analysis



Same store MHC property revenue increased 2.5% and 2.8% for the three and nine months ended September 30, 2014, compared to the same periods in 2013. This was a result of a 3.1% increase in weighted average rent per unit to $225, up from $218 as of September 2013. Killam's seasonal MHCs contributed to this revenue growth with both higher occupancy and increased rental rates during the 2014 summer season. For Q3-2014, total same store property expenses were slightly lower, down 0.5% from Q3-2013 with property taxes and utility price increases offset by savings in operating costs and reduced water consumption. Year-to-date, same store property expenses increased by 0.6% due to higher water costs and increased property taxes, partially offset by a reduction of property operating costs.

Same store revenue growth, combined with efforts to minimize operating expenses, increased MHC same store NOI by 4.1% for both the three and nine months ended September 30, 2014. As a result, operating margins have also increased by 100 bps and 80 bps for the three and nine months ended September 30, 2014.

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

## PART IV

### Other Income

### Home Sales

| | | Three months ended September 30, | | | Nine months ended September 30, | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Home sale revenue | **$396** | $591 | (33.0)% | **$1,216** | $2,007 | (39.4)% |
| Cost of home sales | **(343)** | (550) | (37.6)% | **(1,094)** | (1,707) | (35.9)% |
| New home placement fees | **-** | 15 | (100.0)% | **-** | - | - % |
| Operating expenses | **(13)** | (12) | 8.3% | **(46)** | (43) | 7.0% |
| **Income from home sales** | **$40** | $44 | (9.1)% | **$76** | $257 | (70.4)% |

Killam completed four home sales during the third quarter of 2014, compared to seven home sales and one home placement in the same period of 2013. Year-to-date, Killam has completed twelve homes sales compared to twenty-one home sales and one home placement in the first nine months of 2013. In 2013, Killam had two active MHC developments for home sales compared to one in 2014, as one development was included in the New Brunswick MHC sale in November 2013.

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

The Company projects an additional five home sales for 2014, which will include a mix of newly developed sites and sales on vacant lots throughout the MHC portfolio.

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

## Equity Income

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| **Equity income** | **$166** | $189 | (12.2)% | **$500** | $1,158 | (56.8)% |

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

Equity income decreased quarter-over-quarter due to increase property expenses in the quarter and decreased year-to-date due to fair value gains recognized on the Kanata Lakes property in Q2-2013. Excluding this non-cash increase in fair value, the equity income for the nine months ended September 30, 2013 was $0.5 million which is consistent with the nine months ended September 30, 2014.

## Corporate Income

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| **Corporate income** | **$363** | $295 | 23.1% | **$746** | $719 | 3.8% |

Corporate income includes property management fees, interest on bank accounts and interest on the loan receivable. The 23.1% increase quarter-over-quarter relates to the interest earned on a $4.0 million mezzanine loan that was issued on May 23, 2014, as discussed on page 28. Corporate income increased 3.8% for the nine months ended September 30, 2014, as compared to the same period in 2013, also due to the $4.0 million mezzanine loan, as noted above, offset by interest earned on higher than normal cash balances in 2013.

## Fair Value Gains

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Apartments | **$10,231** | $551 | 1,756.8% | **$ 18,225** | $15,121 | 20.5% |
| MHCs | **2,310** | 1,856 | 24.5% | **2,516** | 11,776 | (78.6)% |
| | **$12,541** | $2,407 | 421.0% | **$ 20,741** | $26,897 | (22.9)% |

The effective weighted average cap-rate used to value the apartment properties decreased 18 bps to 5.70% from December 31, 2013, and 14 bps from the same period in 2013, resulting in fair value gains for Killam's investment properties of $10.2 million for Q3-2014 and $18.2 million year-to-date 2014.

The effective weighted average cap-rate used to value the MHCs decreased 23 bps from December 31, 2013, and decreased 18 bps to 6.63% from the second quarter of 2014, resulting in a $2.3 million fair value gain for the quarter and $2.5 million gain year-to-date.

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

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

## Other Expenses

### Financing Costs

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Mortgage, loan, and construction loan interest | **$7,391** | $7,802 | (5.3)% | **$21,957** | $22,433 | (2.1)% |
| Amortization of fair value adjustments on assumed debt | **(125)** | (109) | 14.7% | **(376)** | (314) | 19.7% |
| Convertible debenture interest | **1,691** | 1,675 | 1.0% | **5,059** | 5,011 | 1.0% |
| Subordinated debenture interest | **-** | - | - | **-** | 10 | - % |
| Capitalized interest | **(339)** | (93) | 264.5% | **(732)** | (970) | (24.5)% |
| | **$8,618** | $9,275 | (7.1)% | **$25,908** | $26,170 | (1.0)% |

Financing costs decreased $0.7 million, or 7.1% during Q3-2014 compared to the same period in 2013. This decrease is generated from refinancings at lower interest rates and higher capitalized interest associated with the timing of two ongoing development projects compared to one development project in its early stages during the same period in 2013.

Year-to-date financing costs are $0.3 million, or 1.0%, lower than the same period of 2013. The decrease is primarily due to refinancings at lower interest rates offset by a decrease in capitalized interest associated with the timing of completion for the development projects. Interest costs associated with development projects are capitalized to the respective development property until substantial completion is achieved.

Mortgage and loan interest expense on Killam's same store properties was $6.1 million for the three months ended September 30, 2014, down from $6.3 million for the same period in 2013. Same store year-to-date mortgage and loan interest expense was $18.3 million compared to $19.1 million in 2013. As a percentage of property revenue, same store mortgage and loan interest expense was lower quarter-over-quarter and year-to-date, at 18.0% and 19.3%, compared to 20.2% and 20.0%, respectively.

Killam manages interest rate risk by entering into fixed rate mortgages and staggering the maturity dates, as well as entering into forward interest rate hedges. An annualized 100 basis point change in the interest rate on Killam's entire mortgage and vendor debt at September 30, 2014, would affect financing costs by approximately $7.6 million per year. However, only $111.0 million of Killam's fixed mortgage and vendor debt matures in the next twelve months. Assuming these mortgages are refinanced at similar terms, except at a 100 basis point increase in interest rates, financing costs would increase by $1.1 million per year. The Company's credit facilities are discussed on page 32 of the MD&A.

### Depreciation Expense

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Total | **$169** | $154 | 9.7% | **$467** | $440 | 6.1% |

Depreciation expense relates to the Company's head office building, vehicles, heavy equipment and administrative office furniture, fixtures and computer equipment. Although the vehicles and equipment are used at various properties, they are not considered part of investment properties and are depreciated for accounting purposes. The increases for the three and nine months ended September 30, 2014, are a result of depreciation of additions, which included vehicles, computer software and leasehold improvements.

# Management's Discussion & Analysis

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

## Amortization of Deferred Financing Costs

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Total | **$430** | $425 | 1.2% | **$1,261** | $1,212 | 4.0% |

Deferred financing amortization has increased 1.2% and 4.0% for the three and nine months ended September 30, 2014. These increases are a result of refinancings and new debt placements on acquired properties and completed developments in 2013. This was partially offset by the reduction in deferred financing costs related to ten NB MHC properties that were sold in November 2013.

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

## Administration Expenses

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Total | **$1,980** | $2,060 | (3.9)% | **$6,028** | $5,695 | 5.8% |
| As a percentage of total revenues | **5.2%** | 5.6% | | **5.5%** | 5.4% | |

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

Administrative expenses as a percentage of revenues were lower in the three months ended September 30, 2014, as a result of a reduction in professional fees. Year-to-date administration expenses as a percentage of revenues are consistent with the the same period in 2013. 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, 2014, and 2013. Killam is not currently cash taxable and does not expect to pay significant cash taxes in the near future as the Company has the ability to claim CCA deductions to reduce taxable income. Based on the assumption that the Company does not add to its asset base, Management estimates that it would become cash taxable in three to five years.

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

## PART V

## Funds from Operations

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

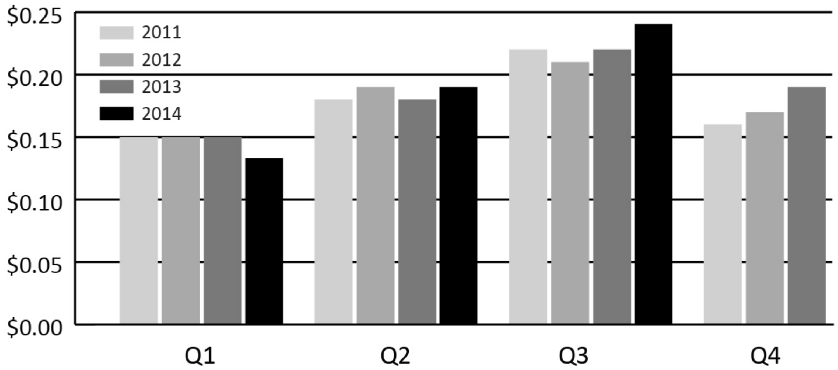
| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Net income | **$21,466** | $12,299 | 74.5% | **$41,221** | $45,118 | (8.6)% |
| Fair value gains | **(13,382)** | (2,407) | 456.0% | **(21,582)** | (26,897) | (19.8)% |
| Fair value gains included in equity income | **-** | - | - | **-** | (691) | (100.0)% |
| Non-controlling interest (before tax and gains) | **(277)** | (234) | 18.4% | **(794)** | (722) | 10.0% |
| Deferred tax expense | **5,061** | 1,972 | 156.6% | **10,947** | 12,211 | (10)% |
| Depreciation on owner-occupied building | **44** | 38 | 15.8% | **124** | 110 | 12.7% |
| Gain on disposition | **-** | - | - | **(94)** | (171) | (45.0)% |
| Tax planning costs | **-** | - | - | **89** | - | - |
| FFO | **$12,912** | $11,668 | 10.7% | **$29,911** | $28,958 | 3.3% |
| FFO/share - basic | **$0.24** | $0.22 | 9.1% | **$0.55** | $0.54 | 1.9% |
| FFO/share - diluted | **$0.22** | $0.21 | 4.8% | **$0.54** | $0.53 | 1.9% |
| Weighted average shares- basic (000's) | **54,917** | 54,266 | 1.2% | **54,759** | 54,058 | 1.3% |
| Weighted average shares - diluted (000's) (1) | **65,172** | 54,621 | 19.3% | **65,030** | 54,433 | 19.5% |

(1) The calculation of weighted average shares outstanding for diluted FFO purposes includes the convertible debentures for the three and nine months ended September 30, 2014 as they are dilutive. For the three months and nine months ended September 30, 2013, the calculation of weighted average shares outstanding for diluted FFO purpose excludes the convertible debentures as they are anti-dilutive. To calculate the three and nine months ended September 30, 2014 diluted FFO per share, an adjustment for the dilutive effect of convertible debentures of $1.7 million and $5.1 million is added back to FFO.

Killam earned FFO of $12.9 million, or $0.24 per share, during Q3-2014 compared to $11.7 million, or $0.22 per share, during Q3-2013. The 10.7% increase in FFO is attributable to same store NOI growth ($0.2 million), contributions from acquisitions and developments ($1.1 million), a reduction in financing costs ($0.6 million) and a reduction in general and administration costs ($0.1 million). This growth was partially offset by a reduction in MHC earnings attributable to the properties sold in November 2013 ($0.8 million).

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

**FFO per Share ($)**




## Adjusted Funds from Operations

AFFO is a supplemental measure used by real estate analysts and some investors to represent FFO after taking into consideration the capital spend related to maintaining the 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,** |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Funds from operations | **$12,912** | $11,668 | 10.7% | **$29,911** | $28,958 | 3.3% |
| *Maintenance Capital Expenditures* | | | | | | |
| Apartments | **(1,402)** | (1,345) | 4.2% | **(4,083)** | (3,919) | 4.2% |
| MHCs | **(129)** | (185) | (30.3)% | **(387)** | (556) | (30.4)% |
| Adjusted funds from operations | **$11,381** | $10,138 | 12.3% | **$25,441** | $24,483 | 3.9% |
| AFFO/ share - basic | **$0.21** | $0.19 | 10.5% | **$0.46** | $0.45 | 2.2% |
| AFFO/ share - diluted(1) | **$0.20** | $0.19 | 5.3% | **$0.46** | $0.45 | 2.2% |
| AFFO payout ratio - basic(2) | **72%** | 78% | (7.7)% | **91%** | 96% | (5.2)% |
| AFFO payout ratio - rolling 12 months(3) | **97%** | 97% | -% | **97%** | 97% | -% |

(1) For the three months and nine months ended September 30, 2013, the calculation of weighted average shares outstanding for diluted AFFO purpose excludes the convertible debentures as they are anti-dilutive. To calculate the three and nine months ended September 30, 2014 diluted AFFO per share, an adjustment for the dilutive effect of convertible debentures of $1.7 million and $5.1 million is added back to FFO.
(2) Based on Killam's annualized dividend of $0.58 for 2013 and $0.60 for 2014.
(3) Based on weighted average dividend of $0.60 for the rolling 12-month period ending September 30, 2014 and $0.58 for September 30, 2013.

The basic AFFO payout ratio of 72% for the three months and 91% for the nine months ended September 30, 2014. The payout ratio for the three and nine month periods is lower than the same periods in 2013 due to the increase in FFO.

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

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

## PART VI

## Investment Properties

**As at,**

| | **September 30, 2014** | December 31, 2013 | % Change |
|---|---|---|---|
| Investment properties | **$1,556,270** | $1,451,743 | 7.2% |
| Investment properties under construction ("IPUC") | **46,385** | 24,373 | 90.3% |
| | **$1,602,655** | $1,476,116 | 8.6% |

## 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, 2014 and 2013.

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **Balance, beginning of period** | **$1,509,851** | $1,461,882 | **$1,451,743** | $1,296,724 |
| Acquisition of properties | **24,515** | 41,880 | **63,435** | 104,049 |
| Disposition of properties | **-** | - | **(40)** | - |
| Transfer from IPUC | **-** | - | **-** | 70,315 |
| Capital expenditures | **9,363** | 5,616 | **20,391** | 13,800 |
| Fair value adjustments - Apartments | **12,541** | 551 | **20,741** | 15,121 |
| Fair value adjustments - MHCs | **-** | 1,856 | **-** | 11,776 |
| **Balance, end of period** | **$1,556,270** | $1,511,785 | **$1,556,270** | $1,511,785 |

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

**Capitalization Rates**

| | **September 30, 2014** | | | December 31, 2013 | | | September 30, 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Low** | **High** | **Effective Weighted Average** | Low | High | Effective Weighted Average | Low | High | Effective Weighted Average |
| Apartments | **4.50%** | **8.00%** | **5.70%** | 4.50% | 8.00% | 5.88% | 4.50% | 8.00% | 5.84% |
| MHCs | **5.75%** | **8.00%** | **6.63%** | 6.00% | 8.25% | 6.86% | 6.00% | 8.25% | 6.58% |

As highlighted in the above chart, the effective weighted average cap-rate used to value the apartment properties decreased by 18 bps from December 31, 2013, and 14 bps from September 30, 2013, generating an increased valuation for some properties in the second and third quarter of 2014.

The effective weighted average cap-rate used to value the MHCs decreased 23 bps from December 31, 2013, which resulted in fair value gains for some Nova Scotia and seasonal park MHC properties in both the second and third quarters of 2014. The increase in the effective weighted average cap-rate from September 30, 2013, is a result of a different weighted portfolio of MHC properties held at end of Q3-2014 and Q3-2013.

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

A sensitivity analysis of all significant assumptions is shown below:

| Class of property | Cap-rate | | Vacancy rate(1) | Management fee rate(1) |
|---|---|---|---|---|
| | *10 basis points increase* | *10 basis points decrease* | *1% increase/ decrease in vacancy* | *1% increase/ decrease in management fee* |
| Apartments | $(25,097) | $25,993 | $21,482 | $22,609 |
| MHCs | $(1,083) | $1,857 | $1,537 | $1,994 |

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

## 2014 Acquisitions - Investment Properties

| Property | Location | Acquisition Date | Year Built | Units | Purchase Price(1) |
|---|---|---|---|---|---|
| Apartments | | | | | |
| 65 Bonaccord Street | Moncton | 21-Feb-14 | 2004 | 35 | $3,925 |
| 50 Selkirk Street(2) | Ottawa | 14-Mar-14 | 1959 | 75 | 6,893 |
| 350 Mayfield Avenue(2) | Ottawa | 14-Mar-14 | 1959 | 61 | 5,607 |
| 300 Royale Blvd | Halifax | 15-Apr-14 | 2014 | 83 | 18,625 |
| Kanata Lakes Apartments II(5) | Ottawa | 24-Sept-14 | 2014 | 152 | 24,423 |
| | | | | | **$59,473** |
| Other | | | | | |
| 36 Kelly Street(3) | Halifax | 15-Jan-14 | | | $1,577 |
| 1335 Hollis Street(4) | Halifax | 28-Feb-14 | | | 1,542 |
| Garden Park Apartments(6) | Halifax | 30-Sept-14 | | | 500 |
| | | | | | **$3,619** |
| **Total Acquisitions** | | | | | **$63,092** |

(1) Purchase price on acquisition does not include transaction-related costs.
(2) Acquired as a portfolio.
(3) Acquired the leasehold interest of the land at 36 Kelly Street.
(4) 1335 Hollis Street is a 4-unit residential dwelling purchased for future redevelopment potential.
(5) Purchase price represents Killam's 50% ownership interest in the acquired property. Killam entered into a joint operation with affiliates of Kingsett Capital Inc. and AIMCo Realty Investors LP.
(6) Acquired an additional 1.7% ownership interest in the property, increasing Killam's ownership to 49%.

During the third quarter, Killam completed $24.9 million in acquisitions, $24.4 million of which related to a 50% interest in the Kanata Lakes Apartment II property. The purchase price for Kanata Lakes Apartments II was $48.7 million ($320,000 per suite), with Killam's 50% ownership interest being $24.4 million. The building includes 129 one-bedroom units and 23 two-bedroom units. The average rent is $1,785 and the average unit size is approximately 950 square feet. The units have condo quality features, including stainless steel appliances, granite countertops and in-suite laundry. The building also includes 196 underground parking stalls and its proportionate interest in a shared two-storey 18,000 square foot clubhouse and fitness facility. The property is owned in a joint operation between Killam and affiliates of KingSett Capital Inc. ("KingSett") and Alberta Investment Management Corporation ("AIMCo").

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

## Investment Properties Under Construction

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **Balance, beginning of period** | **$36,048** | $14,881 | **$24,373** | $57,941 |
| Capital expenditures | **9,157** | 1,497 | **20,439** | 22,391 |
| Interest capitalized | **339** | 93 | **732** | 970 |
| Land acquisitions | **-** | 1,810 | **-** | 7,294 |
| Transfers to investment properties | **-** | - | **-** | (70,315) |
| Fair value gains | **841** | - | **841** | - |
| **Balance, end of period** | **$46,385** | $18,281 | **$46,385** | $18,281 |

During Q3-2014 Killam invested $8.8 million in Chelsea Place, a 102-unit development in St. John’s, and Saginaw Gardens, a 122-unit development in Cambridge. Year-to-date the Company has invested $19.4 million in these two developments. Chelsea Place is expected to cost $21.4 million and has an estimated fair value on completion of $22.5 million. Phase I of Chelsea Place (63 units), is expected to be completed in the fourth quarter of 2014, with move in dates beginning early December. Phase II of Chelsea Place (39 units), is expected to be completed in Q1-2015. Saginaw Gardens is expected to cost $25.3 million and is anticipated to be completed during Q2-2015.

The fair value gain recorded during the quarter relates to Chelsea Place as the fair value of the property was reliably determinable based on the level of completion at quarter-end. Saginaw Gardens is recorded at cost as the project has not reached a stage where fair value can be reliably determined.

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

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

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

## Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the three and nine months ended September 30, 2014, Killam invested a total of $9.4 million and $20.4 million in its portfolio, compared to $5.6 million and $13.8 million for the same periods in 2013.

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Apartments | **$8,564** | $4,892 | 75.1% | **$18,836** | $11,298 | 66.7% |
| MHCs | **792** | 724 | 9.4% | **1,539** | 2,491 | (38.2)% |
| Other | **7** | - | DIV/0 | **16** | 11 | 45.5% |
| | **$9,363** | $5,616 | 66.7% | **$20,391** | $13,800 | 47.8% |

## Apartments - Capital Spend

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

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Building improvements | **$5,131** | $2,268 | 126.2% | **$10,729** | $5,136 | 108.9% |
| Suite renovations | **2,799** | 1,988 | 40.8% | **6,599** | 4,762 | 38.6% |
| Land improvements | **36** | 46 | (21.7)% | **38** | 50 | (24.0)% |
| Boilers and heating equipment | **83** | 93 | (10.8)% | **199** | 241 | (17.4)% |
| Appliances | **380** | 358 | 6.1% | **896** | 825 | 8.6% |
| Parking lots | **29** | 16 | 81.3% | **42** | 20 | 110.0% |
| Equipment | **31** | 53 | (41.5)% | **144** | 134 | 7.5% |
| Other | **75** | 70 | 7.1% | **189** | 130 | 45.4% |
| Total capital spend | **$8,564** | $4,892 | 75.1% | **$18,836** | $11,298 | 66.7% |
| Average number of units outstanding | **12,981** | 12,468 | 4.1% | **12,831** | 12,094 | 6.1% |
| Capital spend per unit | **$660** | $392 | 68.4% | **$1,468** | $934 | 57.2% |

Killam estimates that $450 per unit of the annual capital spend relates to maintenance capital, and the remainder relates to value enhancing upgrades. Maintenance capital varies with market conditions and relates to investments that are not expected to lead to an increase in NOI, or increased efficiency, of a building; however, it is expected to extend the life of a building. Examples of maintenance capital include roof and structural repairs and are in addition to regular repairs and maintenance costs that are expensed to NOI. Value enhancing upgrades are investments in the properties that are expected to result in higher rents and/or increased efficiencies. This includes unit and common area upgrades and energy investments, such as natural gas conversions.

Of the $8.6 million capital investment made in the apartment segment for the third quarter, 60% was spent on building improvements. There are currently several large projects underway in various regions, including major facade upgrades, roof replacements, common area renovations and energy efficiency investments to increase the quality of the Company's assets.

Approximately 33% of the capital spend during the quarter was invested in suite renovations. The increase for both the three and nine months ended September 30, 2014, was a result of unit upgrades to improve quality, increase occupancy and increase yields on properties identified for repositioning.

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

The Company continues to reposition properties that show significant value creation opportunities by upgrading suites and generating increased NOI through higher rents. As examples, the Company continues to reposition such assets as the Brentwood Apartments in Halifax, as well as the Ottawa properties acquired in 2012 and Q1-2014. Increases in rent of 15% or greater are being realized on Brentwood upgrades, and large occupancy gains have been realized in the Ottawa portfolio in the past 12 months. The Company has identified additional properties in the Atlantic region and Ontario for repositioning, and will continue to invest in upgrades where these higher yields can be achieved.

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

Value-enhancing capital improvements increase the operating effectiveness and profitability of Killam's apartment portfolio and the Company expects to invest approximately $26 million during 2014 on portfolio capital investments.

### MHCs - Capital Spend

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

| | | | Three months ended September 30, | | | Nine months ended September 30, |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Change | **2014** | 2013 | % Change |
| Water & sewer upgrades | **$517** | $349 | 48.1% | **$790** | $1,726 | (54.2)% |
| Roads and paving | **15** | 176 | (91.5)% | **62** | 193 | (67.9)% |
| Equipment | **2** | 14 | (85.7)% | **5** | 21 | (76.2)% |
| Other | **177** | 111 | 59.5% | **235** | 391 | (39.9)% |
| Site expansion and land improvements | **81** | 74 | 9.5% | **447** | 160 | 179.4% |
| Total capital spend - MHCs | **$792** | $724 | 9.4% | **$1,539** | $2,491 | (38.2)% |
| Average number of units outstanding | **5,164** | 7,407 | (30.3)% | **5,164** | 7,407 | (30.3)% |
| Capital spend per unit | **$153** | $98 | 56.1% | **$298** | $336 | (11.3)% |

Management expects to spend between $300 and $400 in capital per MHC site on an annual basis. As with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is value enhancing. Management estimates that $100 per unit is maintenance capital, including costs to support the existing infrastructure, and the remaining amount increases the value of the properties, with improved roadways, ability to accommodate future expansion, and community enhancements, such as the addition of playgrounds. The cost of most capital projects will be recovered through above-guideline increases in the provinces with rent control, leading to increased NOI from the investment.

For the three and nine months ended September 30, 2014, Killam invested $0.8 million and $1.5 million on capital expenditures compared to $0.7 million and $2.5 million in the same periods for 2013. This year-to-date decrease primarily relates to a reduction in MHC properties with the MHC sale in November 2013, and a reduction in water and sewer system upgrades. Although per unit costs quarter-over-quarter have increased, the year-to-date per unit costs are lower.

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

## Loan Receivable

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

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

## Liquidity and Capital Resources

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

Killam's ability to grow through acquisitions and development will be dependent on the ability to access mortgage debt, construction financing and to raise equity in the capital markets. Killam had cash on hand of $7.3 million at September 30, 2014, a portion of which can be used for future growth.

## Mortgages and Other Loans

Below are Killam's key debt metrics:

**As at,**

| | **September 30, 2014** | December 31, 2013 | % Change |
|---|---|---|---|
| Weighted average years to maturity of mortgage and vendor debt (years) | **4.5** | 3.9 | 15.4% |
| Gross mortgage, loan and vendor debt as a percentage of total assets | **45.9%** | 45.6% | 0.7% |
| Total debt as a percentage of total assets | **53.6%** | 52.9% | 1.3% |
| Interest coverage ratio (rolling twelve months) | **2.05x** | 2.08x | (1.4)% |
| Debt service coverage ratio (rolling twelve months) | **1.30x** | 1.34x | (3.0)% |
| Weighted average interest rate of mortgage and vendor debt | **3.76%** | 4.05% | (29) bps |
| Weighted average interest rate of total debt | **4.10%** | 4.38% | (28) 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, 2014, only the construction financing loans of $28.8 million and five demand loans, totalling $4.8 million, had floating interest rates. The construction financing has floating interest rates between prime to prime plus 1.0% and the demand loans carry an interest rate of prime plus 1.0% to 2.0%. Once construction has been completed and rental targets achieved, the construction loans will be repaid in full and converted into conventional mortgages.

Killam's September 30, 2014, weighted average interest rate on mortgages and vendor debt improved to 3.76% compared to 4.05% as at December 31, 2013, as a result of refinancings at lower interest rates during the period. This trend is expected to continue throughout the remainder of 2014 with another $32.2 million in mortgages to be refinanced during the last quarter of the year (totalling 4% of the portfolio). By December 31, 2016, an additional $207 million, or 27% of the Company's mortgage balance, will be refinanced and the weighted average years to maturity lengthened. Management expects to refinance at lower rates than its weighted average interest rate on maturing debt in 2014 (5.50%) and 2015 (4.50%).

Total debt as a percentage of total assets increased 130 bps compared to December 31, 2013, as a result of upfinancings and new debt placed on two investments properties acquired in late 2013 that were previously unencumbered. Management expects to maintain the percentage of debt to total assets between 55% and 65%. This ratio is sensitive to changes in the fair value of investment properties, in particular cap-rate changes. A 10 basis point increase in the weighted average cap-rate at September 30, 2014, would have increased the ratio of debt as a percentage of total assets by 90 bps.

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

## Refinancings

During the nine months ended September 30, 2014, Killam refinanced the following mortgages:

| | Mortgage Debt Maturities | | Mortgage Debt on Refinancing | | Weighted Average Term | Net Proceeds |
|---|---|---|---|---|---|---|
| Apartments | $98,084 | 4.25% | $129,703 | 2.78% | 6.2 years | $31,619 |
| MHCs | 8,141 | 5.97% | 11,648 | 4.21% | 5.0 years | 3,507 |
| | $106,225 | 4.38% | $141,351 | 2.90% | 6.1 years | $35,126 |

Subsequent to September 30, 2014, the Company refinanced $12.8 million of maturing apartment debt for new CMHC mortgage debt of $23.7 million, yielding net proceeds of $10.9 million. The refinancings were all at 5-year terms at a new weighted average interest rate of 2.46% compared to the previous rate of 5.89%. In addition, the Company placed $29.2 million in new CMHC financing on the Kanata II building acquired during the quarter for a 10-year term at 3.29%. Killam's portion of this mortgage is 50%.

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

| | Apartments | | | MHCs | | **Total** | |
|---|---|---|---|---|---|---|---|
| Year of Maturity | **Balance Sept 30, 2014** | Weighted Avg Int. Rate % | % CMHC Insured | **Balance Sept 30, 2014** | Weighted Avg Int. Rate % | **Balance Sept 30, 2014** | Weighted Avg Int. Rate % |
| 2014 | 26,875 | 5.42 | 66.4 | 5,348 | 5.87 | 32,223 (1) | 5.50 |
| 2015 | 87,763 | 4.46 | 69.3 | 4,115 | 5.19 | 91,878 | 4.50 |
| 2016 | 112,154 | 4.18 | 53.4 | 3,179 | 5.09 | 115,333 | 4.21 |
| 2017 | 27,710 | 3.13 | 96.2 | 17,520 | 4.64 | 45,230 | 3.72 |
| 2018 | 76,778 | 3.72 | 50.5 | 13,049 | 4.34 | 89,827 | 3.81 |
| 2019 | 149,464 | 2.91 | 92.2 | 11,543 | 4.21 | 161,007 | 3.00 |
| 2020 | 19,436 | 4.09 | 100.0 | - | - | 19,436 | 4.09 |
| 2021 | 23,234 | 3.79 | 88.7 | - | - | 23,234 | 3.79 |
| 2022 | 23,989 | 3.16 | 100.0 | - | - | 23,989 | 3.16 |
| Thereafter | 165,678 | 3.46 | 100.0 | - | - | 165,678 | 3.46 |
| | $ 713,081 | 3.69 | 79.5 | $ 54,754 | 4.67 | $767,835 | 3.76 |

(1) Excludes $4.1 million related to demand loans classified as current mortgage debt on the Q3-2014 condensed consolidated financial statements.

As at September 30, 2014, approximately 80% of the Company's apartment mortgages were CMHC insured (74% of all mortgages as MHC properties are not eligible for CMHC insurance) (December 31, 2013 – 72% and 67%). The weighted average interest rate on the CMHC insured mortgages was 3.29% as at September 30, 2014 (December 31, 2013– 3.67%).

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

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

The following table presents the NOI of properties that are available to Killam to refinance at debt maturity for the remainder of 2014 and for 2015. With $121.3 million in mortgages maturing through 2015, Management continues to evaluate opportunities to fix interest rates before maturity to lock in savings on refinancings.

**2014 & 2015 Debt Refinancings**

| **2014** | **Number of Properties** | **NOI** | **Principal Balance (at maturity)** |
|---|---|---|---|
| Apartments with debt maturing in 2014 | 13 | $4,376 | $26,508 |
| MHCs with debt maturing in 2014 | 3 | 889 | 5,293 |
| 2014 debt maturities | 16 | $5,265 | $31,801 |
| | | | |
| **2015** | | | |
| Apartments with debt maturing in 2015 | 34 | $12,495 | $86,474 |
| MHCs with debt maturing in 2015 | 4 | 788 | 3,962 |
| 2015 debt maturities | 38 | $13,283 | $90,436 |

## Future Contractual Debt Obligations

At September 30, 2014, the timing of the Company's future contractual debt obligations are as follows:

| **For the twelve months ended September 30,** | Mortgage and loans payable | Construction loans | Convertible debentures | **Total** |
|---|---|---|---|---|
| 2015 | $135,438 | $28,757 | $- | **$164,195** |
| 2016 | 93,323 | - | - | **93,323** |
| 2017 | 99,628 | - | - | **99,628** |
| 2018 | 93,254 | - | 103,500 | **196,754** |
| 2019 | 146,979 | - | - | **146,979** |
| Thereafter | 203,275 | - | - | **203,275** |
| | $771,897 | $28,757 | $103,500 | **$904,154** |

## Debentures

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

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

### Construction Loans

As at September 30, 2014, the Company had access to three floating rate non-revolving demand construction loans totalling $48.0 million for the purpose of financing the development projects. Payments are made monthly on an interest-only basis. The construction loans have interest rates ranging from prime to prime plus 1%. Once construction has been completed and rental targets achieved, the construction loans will be repaid in full and converted into conventional mortgages. As at September 30, 2014, $28.8 million (December 31, 2013 - $14.8 million) was drawn at a weighted average interest rate of 3.82% (December 31, 2013 - 3.75%).

### Credit Facilities

The Company has a credit facility with a major financial institution, which consists of a $2.0 million revolving demand facility that can be used for the Company's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 bps on prime rate advances or 225 bps over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. At September 30, 2014, the Company had assets with a fair value of $1.7 million pledged to the line and had a balance outstanding of $Nil (December 31, 2013 - $Nil).

A credit facility with a major financial institution, which consists of a $1.5 million revolving demand facility that can be used for the Company's acquisition program and for general business purposes. The interest rate on the debt is prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at September 30, 2014, the Company had assets with a fair value of $1.1 million pledged as collateral and letters of credit totalling $0.5 million outstanding against the facility (December 31, 2013 - $0.5 million).

## Shareholders' Equity

On September 19, 2014, the Company issued 691,488 shares for cash proceeds of $7.0 million through a private placement to a joint venture between KingSett and AIMCo. Following the completion of the private placement, the joint venture collectively owns common shares of Killam, representing approximately 10.8% of Killam's common shares outstanding. In connection with the private placement, the joint venture has agreed to certain customary "standstill" provisions with respect to Killam's common shares. The cash from the private placement was used to acquire a 50% interest in Kanata Lakes Apartments II through its joint operation with affiliates of KingSett and AIMCo. In addition, the Company issued 75,330 shares during Q1-2014 related to a Q4-2013 acquisition of 50 Roy Boates Avenue located in PEI.

For the three and nine months ended September 30, 2014, 3,000 and 136,750 stock options were exercised for common shares, and cash proceeds to the Company were $24,500 and $0.8 million. There were also 3,668 and 7,802 restricted share units redeemed for common shares during the three and nine months ended September 30, 2014.

Killam pays a dividend of $0.05 per share per month ($0.60 per share annualized). The Company's Dividend Reinvestment Plan ("DRIP") allows shareholders to elect to have all cash dividends from the Company reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to the ten day volume weighted average price of the Company's common shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration. For the three and nine months ended September 30, 2014, the Company issued 48,775 and 185,889 common shares under the DRIP with a value of $0.5 million and $1.9 million (three and nine months ended September 30, 2013 – the Company issued 78,940 and 233,573 commons shares with a value of $0.8 million and $2.7 million). For the three and nine months ended September 30, 2014, the average DRIP participation rate was 6% and 7% (three and nine months ended September 30, 2013, the DRIP participated was 9% and 11%).

.

## PART VII

## Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. These are described in detail in the Management's Discussion and Analysis found in Killam's 2013 Annual Report and Annual Information Form filed on SEDAR. These factors still exist at the end of this interim period and remain relatively unchanged.

## Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

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

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions. The significant areas of judgments, estimates and assumptions are set out in Note 3 of the consolidated financial statements found in Killam's 2013 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred taxes.

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

## Disclosure Controls and Procedures and Internal Controls

The Company’s management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company’s Disclosure Controls and Procedures and Internal Controls will prevent or detect all error and all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected. During the most recent interim period, there have been no changes in the Company's policies or procedures and other processes that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

## Subsequent Events

On October 17, 2014, the Company announced a dividend of $0.05 per share, payable on November 17, 2014, to shareholders of record on October 31, 2014.